regeneration

Annual Report 2005

generating progress

- Net income of $131 million, up $65 million.
- Fuel and purchased power costs down due to favourable hydro conditions.
- Profitability of subsidiaries rises.
- More than $60 million spent across the province on new customer connects.
- Record capital program of nearly $475 million dedicated to renewing and enhancing infrastructure.
- Portion of Centennial Wind Power Facility begins feeding electricity to Saskatchewan's grid.
- New transmission and distribution system for Centennial Wind Power Facility commissioned.
- Nipawin Hydroelectric Station Unit #2 major overhaul concluded.
- Shand Power Station boiler, turbine and generator major overhaul completed.
- Poplar River Power Station Unit #2 upgrade underway.
- Boundary Dam coal handling system upgrade and replacement continues.
- Participation in major feasibility studies on a clean coal plant and polygeneration facility announced.
- First full year of centralized Corporate Safety Department culminates with OHSAS 18001 registration of SaskPower's Safety Management System.
- Phase I Environmentally Preferred Power contract signed with Alliance Pipeline for 5-megawatt heat recovery project. Phase II proposals submitted.
- Energy Performance Contracting service alliance between SaskPower and Honeywell renewed additional five years.
- Key Account Advisory Forum, consisting of largest customers from major industrial sectors, established.
- Province-wide power savings campaign promotes energy conservation.
- Shand Greenhouse marks Saskatchewan's centennial by growing and distributing approximately 80,000 Western red lily seedlings.

Profile

SaskPower serves more than 441,000 customers and manages $4.1 billion in assets. It operates three coal-fired power stations, seven hydroelectric stations, four natural gas stations and one wind facility with an aggregate generating capacity of over 3,050 megawatts (MW). The Corporation also has purchase agreements with the Meridian Cogeneration Station, Cory Cogeneration Station and SunBridge Wind Power Project. Total available capacity is approximately 3,500 MW, supplying customers through more than 154,000 kilometres of transmission and distribution lines. The Corporation's new 150-MW Centennial Wind Power Facility will join SaskPower's generating fleet in 2006.

Net income of $131 million, up $65 million.

Fuel and purchased power costs down due to favourable hydro conditions.

Profitability of subsidiaries rises.

More than $60 million spent across the province on new customer connects.

Record capital program of nearly $475 million dedicated to renewing and enhancing infrastructure.

Portion of Centennial Wind Power Facility begins feeding electricity to Saskatchewan's grid.

New transmission and distribution system for Centennial Wind Power Facility commissioned.

Nipawin Hydroelectric Station Unit #2 major overhaul concluded.

Shand Power Station boiler, turbine and generator major overhaul completed.

Poplar River Power Station Unit #2 upgrade underway.

Boundary Dam coal handling system upgrade and replacement continues.

Participation in major feasibility studies on a clean coal plant and polygeneration facility announced.

First full year of centralized Corporate Safety Department culminates with OHSAS 18001 registration of SaskPower's Safety Management System.

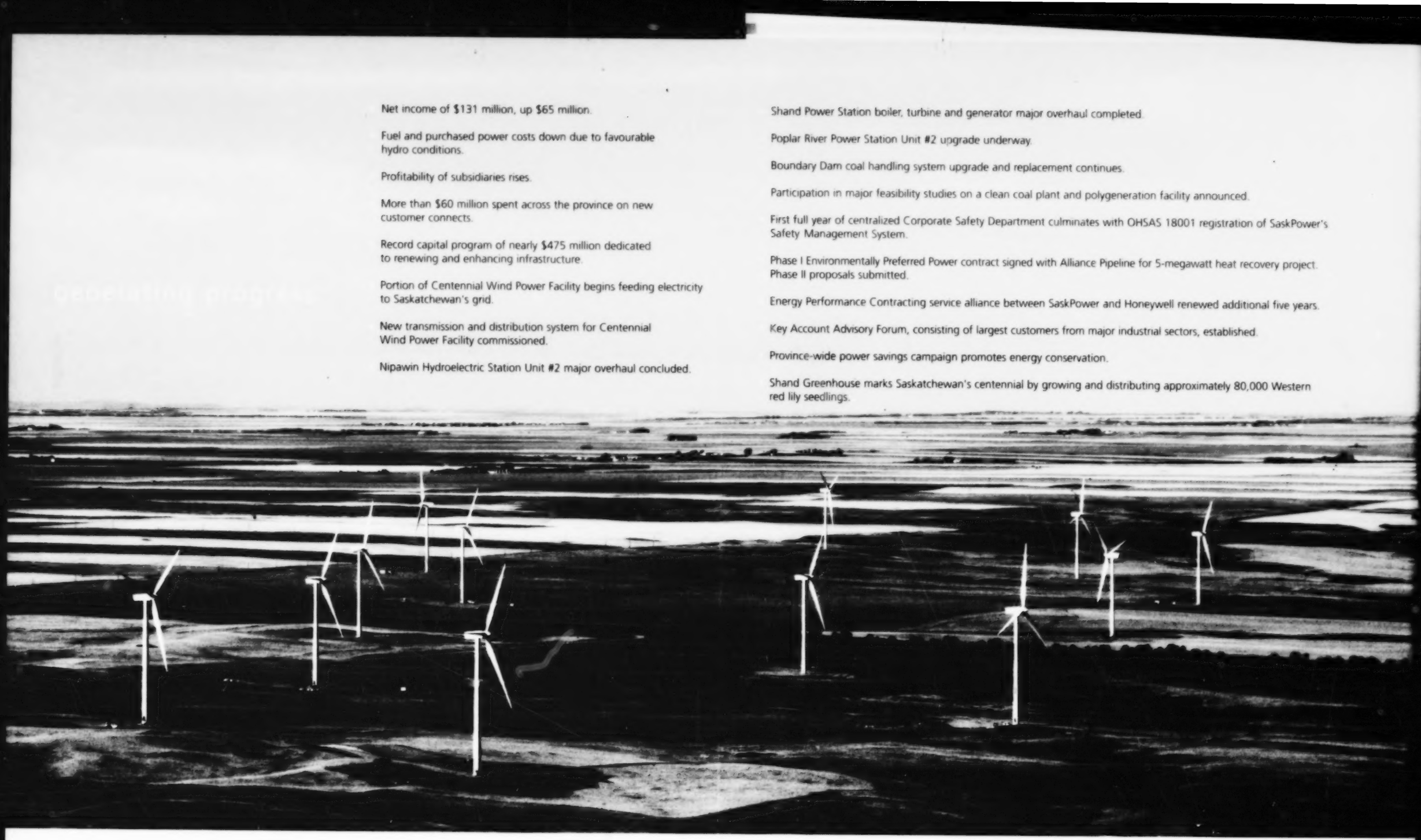
Phase I Environmentally Preferred Power contract signed with Alliance Pipeline for 5-megawatt heat recovery project. Phase II proposals submitted.

Energy Performance Contracting service alliance between SaskPower and Honeywell renewed additional five years.

Key Account Advisory Forum, consisting of largest customers from major industrial sectors, established.

Province-wide power savings campaign promotes energy conservation.

Shand Greenhouse marks Saskatchewan's centennial by growing and distributing approximately 80,000 Western red lily seedlings.



SaskPower serves more than 441,000 customers and manages $4.1 billion in assets. It operates three coal-fired power stations, seven hydroelectric stations, four natural gas stations and one wind facility with an aggregate generating capacity of over 3,050 megawatts (MW). The Corporation also has purchase agreements with the Meridian Cogeneration Station, Cory Cogeneration Station and SunBridge Wind Power Project. Total available capacity is approximately 3,500 MW, supplying customers through more than 154,000 kilometres of transmission and distribution lines. The Corporation's new 150-MW Centennial Wind Power Facility will join SaskPower's generating fleet in 2006.

generating success

Companies are living, breathing things. In order to flourish, they must renew and reinvent themselves. In the process, they grow stronger to successfully meet the changing needs of customers.

In 2005, as Saskatchewan celebrated its 100th anniversary, the winds of change continued to move throughout SaskPower. Our Corporation moved to the forefront of wind generation in Canada by nearing completion of the 150-megawatt Centennial Wind Power Facility.

Located 25 kilometres southeast of Swift Current, its 83 wind turbines will produce enough electricity to serve about 64,000 Saskatchewan homes. At its highest point, each blade reaches 107 metres – approximately 30 stories above the ground. The tip can spin at 250 kilometres per hour, helping us stay ahead of the challenge to deliver power in a safe, reliable, cost-effective and environmentally responsible manner.

106-04479/

financial and operating highlights

Consolidated Financial Results

(in millions)	2005	2004	Change
Revenue	$ 1,326	$ 1,257	$ 69
Fuel and purchased power	491	500	(9)
Operating and financing expenses	704	691	13
Net income	$ 131	$ 66	$ 65

SaskPower Subsidiaries' Net Income

(in millions)	2005	2004	Change
SaskPower International	$ 4	$ 1	$ 3
NorthPoint	12	7	5

Financial Indicators

(in millions)	2005	2004	Change
Dividends	$ 85	$ 59	$ 26
Capital spending	473	301	172
Long-term debt, net of sinking funds	2,297	2,041	256
Return on equity[1]	9.2%	4.8%	4.4%
Per cent debt ratio[2]	60.9%	58.2%	2.7%

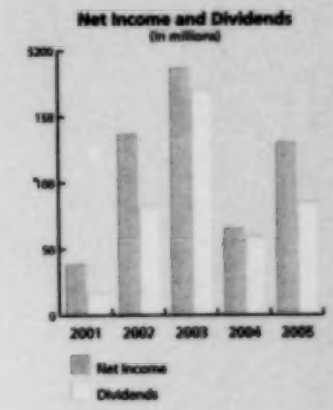
1. Return on equity = (net income)/(average equity), where average equity = [(total equity at year end + total equity at previous year end)/2].

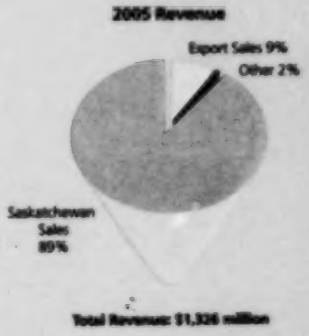
2. Per cent debt ratio = (debt)/(debt + equity), where debt = (long-term debt + current portion of long-term debt - cash and short-term investments).

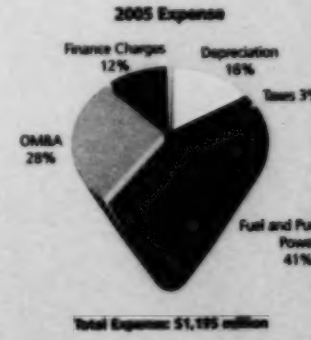
Operating Statistics

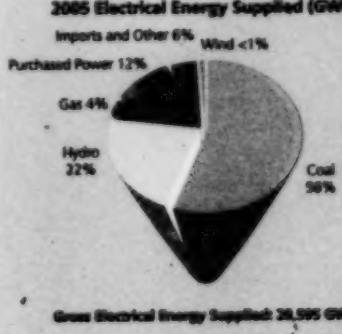
(GWh)	2005	2004	Change
Saskatchewan electric sales	17,133	16,894	239
Exports	1,670	1,538	132
Total electric sales	18,803	18,432	371
Gross electrical energy supplied	20,595	20,382	213
Losses and internal use	(1,792)	(1,950)	158
Net electrical energy supplied	18,803	18,432	371

One GWh is equivalent to the energy consumed by 125 typical houses in one year.









106-04479/

financial and operating highlights

(in millions)	2005	2004	Change
Revenue	**$ 1,326**	$ 1,257	$ 69
Fuel and purchased power	**491**	500	(9)
Operating and financing expenses	**704**	691	13
Net income	**$ 131**	$ 66	$ 65

(in millions)	2005	2004	Change
SaskPower International	**$ 4**	$ 1	$ 3
NorthPoint	**12**	7	5

(in millions)	2005	2004	Change
Dividends	**$ 85**	$ 59	$ 26
Capital spending	**473**	301	172
Long-term debt, net of sinking funds	**2,297**	2,041	256
Return on equity	**9.2%**	4.8%	4.4%
Per cent debt ratio	**60.9%**	58.2%	2.7%

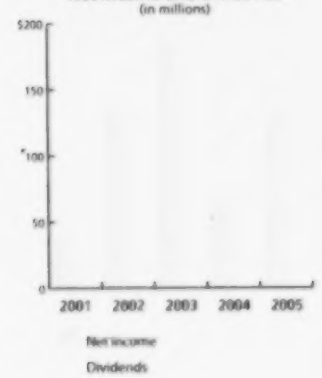
1. Return on equity = (net income)/(average equity), where average equity = [(total equity at year end + total equity at previous year end)/2].

2. Per cent debt ratio = (debt)/(debt + equity), where debt = (long-term debt + current portion of long-term debt - cash and short-term investments).

(GWh)	2005	2004	Change
Saskatchewan electric sales	**17,133**	16,894	239
Exports	**1,670**	1,538	132
Total electric sales	**18,803**	18,432	371
Gross electrical energy supplied	**20,595**	20,382	213
Losses and internal use	**(1,792)**	(1,950)	158
Net electrical energy supplied	**18,803**	18,432	371

One GWh is equivalent to the energy consumed by 125 typical houses in one year.

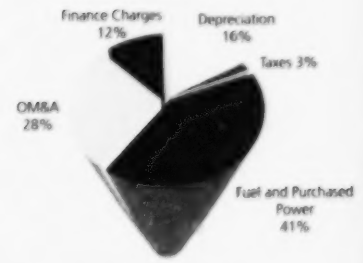
Net Income and Dividends
(in millions)



2005 Revenue

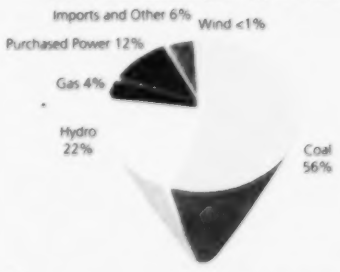
Total Revenue: $1,326 million

2005 Expense



Total Expense: $1,195 million

2005 Electrical Energy Supplied (GWh)



Gross Electrical Energy Supplied: 20,595 GWh

Our Strategic Direction

Vision: Excelling in competitive energy markets.

Mission: We deliver power in a safe, reliable, cost-effective and environmentally responsible manner.

Values: We are committed to respect, integrity and openness in all we do.

Table of Contents

Minister's Letter	1
Chair's Message	2
President's Message	4
Generating Achievement	6
Management's Discussion & Analysis	14
Report of Management	41
Auditors' Report	42
Consolidated Financial Statements/Notes	43
Five-year Operating Summary	67
Five-year Financial Summary	68
Corporate Governance	69
Board of Directors/Executive Team	78
Glossary	79
System Map	80

Minister's Letter

Regina
March 2006

To Her Honour
The Honourable Dr. Lynda Haverstock
Lieutenant-Governor of Saskatchewan
Province of Saskatchewan

Madam:
I have the honour to submit herewith the Annual Report of the Saskatchewan Power Corporation for the year ended December 31, 2005. The report includes the financial statements for the year in the form approved by the Treasury Board, duly certified by the auditors of Saskatchewan Power Corporation, all in accordance with *The Power Corporation Act*.

I have the honour to be, Madam, your obedient servant,

John T. Nilson, Q.C.
Minister Responsible
SaskPower

generating confidence

Chair's Message

Without question, we are in the midst of one of the most significant eras in the history of SaskPower. As a company intrinsically linked to the economic and social development of an entire province, the Corporation is facing an intensive period of future planning that will shape the way we serve our customers for decades.

The variables we must grapple with are many – electrical supply, environmental requirements, economic stability and employee succession. As a result, it is critical that the Corporation maintains a strategic course grounded in the priorities that have contributed to its success for more than 75 years: building excellence in customer service delivery; developing SaskPower's people; promoting environmental stewardship; and ensuring sound financial management.

During 2005, the Board of Directors became even more actively engaged in charting the company's future by helping to refine the Corporation's planning process, while also holding a special meeting in October to exclusively review SaskPower's strategic direction for 2006 and beyond. At the centre of these discussions was the federal government's climate change strategy and its impact on the Corporation's Sustainable Supply Plan.

Board accountability, guided by clear governance practices, is also a priority. I am pleased to report that we completed reviews of the Terms of Reference for all standing committees, the Board itself and its Directors. Meanwhile, this annual report marks the first time that SaskPower measures itself against new Canadian Securities Administrators (CSA) guidelines, replacing previous governance best practices set out by the Toronto Stock Exchange. A report outlining areas SaskPower will address to meet CSA compliance standards has been received by the Governance Committee.

This year, the Board of Directors was also able to begin the process of redefining a vision statement for SaskPower, a project of reflection and renewal especially fitting in our province's centennial year. Themes that were explored include the proud history of the Corporation, innovations that helped electrify the province and the ability to adapt to an ever-changing operational environment. One common element emerged in this process: an unwavering commitment to service exhibited by SaskPower employees.

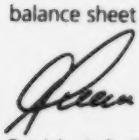
During 2005, SaskPower was able to join with the Communications, Energy and Paperworkers (CEP) Local 649 and International Brotherhood of Electrical Workers (IBEW) Local 2067 in successfully reaching new collective agreements. At the same time, the Corporation continues to prepare for the reality that a majority of employees – in both union and management ranks – are reaching the end of their working careers. In the next five to 10 years, there will be a rapid rise in the number of retirements across all positions within our company. The renewal of such a highly skilled workforce is a difficult endeavour, especially when it can take years to train an individual for a particular position.

"On all fronts, continued progress and exceptional management allows the Board of Directors to unequivocally express confidence in SaskPower's present and future ability to fulfill its role as a Crown corporation."

The further evolution of our succession planning and leadership development programs is helping SaskPower prepare for these challenges. The company is also looking to engage a broader base of Saskatchewan's population through a new recruitment strategy, which commits to hiring 60 diversity candidates per year from historically under-represented groups, including persons with disabilities, women in non-traditional roles, Aboriginal people and visible minorities.

On all fronts, continued progress and exceptional management allows the Board of Directors to unequivocally express confidence in SaskPower's present and future ability to fulfill its role as a Crown corporation. Research shows satisfaction among our residential customers is increasing. In addition, the Corporation's new Key Account Advisory Forum – consisting of executives from our largest customers – is helping SaskPower work more closely with industry. Meanwhile, residential, agricultural, business and industrial customers are being better served as a result of the significant effort invested within the company to complete information privacy initiatives.

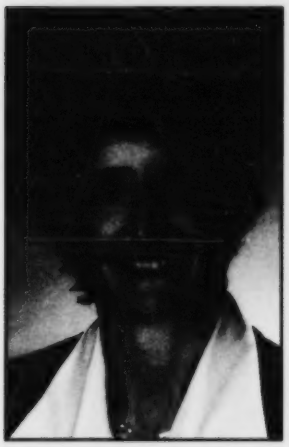
On behalf of my colleagues, I would like to pass along our best wishes to Marty Klyne and appreciation for his service on the Board of Directors. In addition, I would also like to thank the Corporation's employees for their invaluable contributions in providing high quality electrical service to customers while ensuring a strong balance sheet and steady overall performance is achieved.



Patricia A.G. Quaroni, LLB
Chair

generating results

President's Message



SaskPower and its employees have long demonstrated a commitment to customers through leadership, innovation and resolve – traits also synonymous with Saskatchewan and its 100-year history. At our company, these characteristics were especially evident during 2005, a year of renewal and recovery marked by a record capital investment program approaching $475 million and a net income of $131 million.

Standing in the hills southeast of Swift Current – viewing first-hand the result of a vision turning into reality – was an especially memorable highlight in 2005. The new 150-megawatt Centennial Wind Power Facility is truly a fitting tribute to our province's anniversary. With 67-metre high towers reaching into the prairie sky, it is an awesome presence in the area. It will join the Cypress Wind Power Facility and SunBridge Wind Power Project in accounting for approximately five per cent of the province's generation capacity, positioning SaskPower at the forefront of wind generation in Canada.

Wind power is a significant component of our Green Power Portfolio (GPP), which is ensuring all new supply requirements to 2010 are met through environmentally friendly sources. Another key aspect of the GPP is the Environmentally Preferred Power Program, which continues to draw exceptional interest and participation from Independent Power Producers wanting to partner with SaskPower on small-scale, low-environmental impact generation projects.

When it comes to long-term supply planning, we are engaging in extensive research and analysis. This work will place the Corporation at the leading edge of electrical generation technology that meets high environmental standards. With funding from the provincial and federal governments, SaskPower will be participating in major feasibility studies on a world class near-zero emissions coal plant and a cutting-edge polygeneration facility. Decisions on any possible future supply options will always be made within the context of providing safe, reliable and cost-effective electricity to our customers.

To that end, we continue to make major reinvestments in our existing generation, transmission and distribution infrastructure. During the year, significant refurbishments occurred at all of our coal-fired power stations and at the Nipawin Hydroelectric Station, while a new transmission protective relay replacement program and existing wood pole replacement program were implemented at various locations in the province.

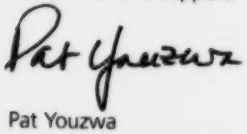
Throughout 2005, SaskPower's employees continued to rise to the challenge of providing customers with an extraordinary level of service. Their flexibility and resourcefulness was especially apparent during what was a remarkable year for our hydroelectric operations. By taking advantage of record water flows under extremely challenging working conditions – combined with efforts to maximize export opportunities – SaskPower was able to offset the impact of increased natural gas prices.

"When it comes to long-term supply planning, we are engaging in extensive research and analysis. This work will place the Corporation at the leading edge of electrical generation technology that meets high environmental standards."

This type of ingenuity and diligence will be especially valuable as we continue to face cost pressures associated with volatile natural gas markets, variable water flows, as well as the ongoing challenges associated with our aging infrastructure. While we were pleased to be able to defer a planned rate increase until 2006, we must continue to strive to maintain the long-term health of the Corporation.

The safety of those working to produce and distribute electricity – as well as customers who use it – remains a major focus for our company. The first full year of operation for our new centralized Corporate Safety Department has seen important progress toward ensuring the well-being and protection of employees, contractors and customers. Our ultimate vision is to make safety a part of everything we do.

I would like to express my gratitude to all employees and the Board of Directors for their individual and collective contributions to a year of exceptional performance. My thanks extend to our customers for their continuing confidence and support.



Pat Youzwa
President and Chief Executive Officer

generating achievement

SaskPower is a complex company operating in complicated times. On any given day, employees focus on issues ranging from environmental sustainability to electricity production, information technology to customer services, and transmission and distribution to energy exports.

Whatever their individual responsibilities, employees are joined by a common mission – to deliver power in a safe, reliable, cost-effective and environmentally responsible manner. They are also connected by the challenges and opportunities presented by readying the Corporation for a myriad of emerging demands and expectations.

Together, SaskPower employees are positioning our company to move through the 21st century as a leader in the electrical utility industry. In collaboration with our shareholder and stakeholders, they are also executing a strategy that will generate a future characterized by performance, strength and innovation.

Max Ball
Manager – Clean Coal Project
Planning, Environment and Regulatory Affairs

SaskPower is assembling a team of specialists to design a prototype for a 300-megawatt (MW) coal-fired generating unit that would be nearly emissions-free. If successful, this unit will be the first of its kind in the world. The design phase is expected to be complete by July 2007.

Supplying Solutions

During the next 20 years, SaskPower will be making major decisions concerning the refurbishment or replacement of virtually its entire generating fleet. In fact, the Corporation will have to choose its next large-scale generating facility within the next 12-18 months. A variety of options are being reviewed, with clean coal and polygeneration leading the way. Others include: demand side management, hydro, renewables, purchased power, imports, cogeneration and nuclear power. Each will receive careful consideration in relation to service quality, cost, environmental responsibility and social acceptance.

In the Corporation's first 75 years of operation, fossil fuels played an integral part in generating electricity. Today, 75 per cent of installed capacity is coal- and natural-gas based. However, emerging regulatory requirements are calling for significant reductions in the volume of greenhouse gas emissions – particularly carbon dioxide (CO_2).

For SaskPower, meeting these new emissions standards while replacing and upgrading an aging infrastructure will provide significant fiscal, operational, environmental and social challenges. Our company's practice of placing supply planning at the core of its strategic and business planning activities has resulted in the Corporation spearheading the development of world-class technology that may help Saskatchewan to continue to use its abundant supply of low-cost lignite coal deposits.

SaskPower will be leading research on a near-zero emissions coal plant that could be built in southern Saskatchewan – the first of its kind in the world. Meanwhile, an international project to develop mercury capture equipment for coal-fired units is continuing at Poplar River Power Station. With new federal legislation being developed that would dramatically cut allowable mercury emissions, the results to-date are encouraging.

SaskPower will also be participating in a major feasibility study examining the possible development of a polygeneration plant. The facility would use petroleum coke or petroleum residuals from the oil-refining process for feedstock. It would also employ advanced technology to nearly eliminate emissions while producing hydrogen, nitrogen, steam and CO_2 to produce fertilizer, electricity and other commodities.

During the year, employees responded to the challenge of managing record high water levels at four hydroelectric stations on the Churchill (pictured) and Saskatchewan Rivers. As a result, SaskPower was able to increase hydro generation by 67% over 2004.

Building Momentum

In 2005, SaskPower completed a record capital expenditure program of nearly $475 million. This included significant investments in existing infrastructure and expenditures on new generation projects.

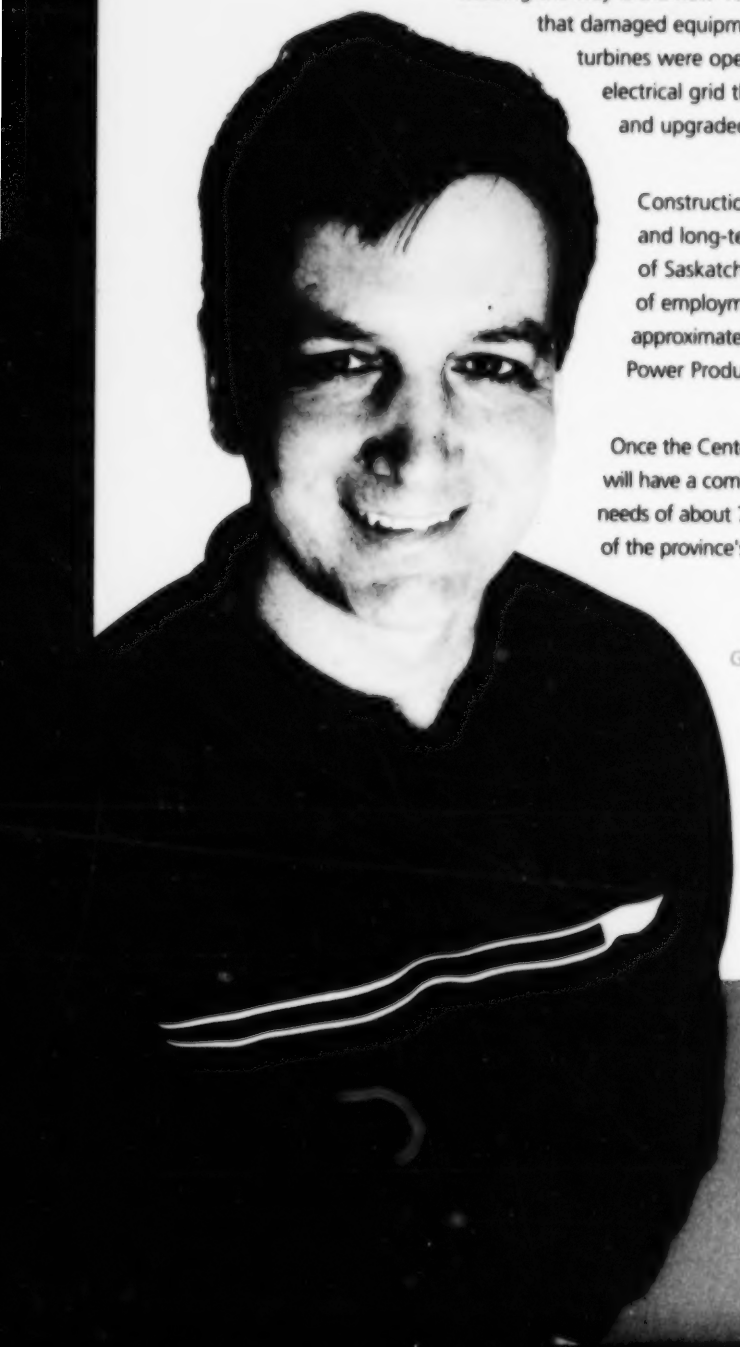
Leading the way is the new 150-megawatt (MW) Centennial Wind Power Facility. Despite a tornado that damaged equipment on the ground and toppled a heavy lift crane, 51 of the 83 wind turbines were operating by year-end and delivering up to 90 MW to the province's electrical grid through a new switching station, transmission lines, distribution lines and upgraded network facilities.

Construction of the Centennial Wind Power Facility is providing both short-term and long-term economic and environmental benefits. Approximately $70 million of Saskatchewan goods and services were used, including 178,000 person-hours of employment. Meanwhile, the Government of Canada announced it is providing approximately $54 million in funding over 10 years to the project through the Wind Power Production Incentive.

Once the Centennial Wind Power Facility is fully commissioned in 2006, Saskatchewan will have a combined 172 MW available from three wind facilities, enough to meet the needs of about 73,000 homes. In total, wind will account for approximately five per cent of the province's total generation capacity, one of the highest percentages in Canada.

Greening Growth

The Centennial Wind Power Facility is an integral component of SaskPower's Green Power Portfolio (GPP). This sustainable energy strategy aims to supply all of Saskatchewan's new electricity needs until 2010 from environmentally friendly sources. A key component of the GPP is the Corporation's Environmentally Preferred Power (EPP)



Mark Peters
Engineering Project Leader
Power Production

With the construction of the new 150-MW Centennial Wind Power Facility, Saskatchewan will rank third in Canada in total installed capacity. Along with the Cypress Wind Power Facility and electricity purchased from the SunBridge Wind Power Project, the province will have a combined capacity of 172 MW of environmentally friendly power.

Program. It encourages Independent Power Producers to develop small-scale environmentally friendly sources of electricity through options such as biogas, biomass, flare gas, heat recovery, low impact hydro, solar and wind.

This year, 11 proponents submitted 17 project proposals totaling 241 MW as part of Phase II of the initiative. An independent auditor will review the final selection process. Phase I of the EPP Program resulted in a commitment to 14 MW of capacity, with projects ranging in size from 3.6 MW to 5.4 MW. The first project to begin development is the Alliance Pipeline heat recovery development at a gas compressor station near Kerrobert.

Energy conservation also has a prominent role in the GPP. In 2005, SaskPower's Energy Performance Contracting (EPC) service alliance between SaskPower and Honeywell was renewed for an additional five years. The EPC service is designed to help large-scale commercial and institutional customers capture significant energy savings through guaranteed self-financing efficiency projects that reduce operating costs. To-date, the EPC service has completed 12 projects, including five for Saskatchewan Property Management, with individual values ranging from $450,000 to $3 million. Sales for the service are growing, and customers are now saving more than $2.5 million a year in utility costs.

SaskPower's power savings campaign, aimed at residential and-small business customers across the province, is also ongoing. During its second year it continued to provide information on how to save electricity and reduce power bills while helping the environment. Advertisements, web-based tips and print materials focused on the use of appliances as well as low or no-cost changes customers could make in their electrical use.

Environmental responsibility and performance remain at the core of all of SaskPower's operational activities. During the year, the Corporation's Environmental Policy was reviewed and revised, while its Environmental Management System (EMS) was re-registered under the demanding ISO 14001 standard following independent audits. In addition, the Association of Professional Engineers and Geoscientists of Saskatchewan (APEGS) recognized SaskPower and its subsidiary, SaskPower International, for their commitment to developing environmentally progressive energy sources through wind power facilities. The first-ever Environmental Excellence Award honours exceptional achievement by an APEGS member for efforts in environmental protection and preservation.

SaskPower's Cory Gelowitz (l) and Garry Tollefson (r) join Honeywell's Blair Adams to announce the renewal of a five-year Energy Performance Contracting (EPC) strategic alliance. The EPC service helps large commercial and institutional customers optimize energy consumption and efficiency while saving utility costs.

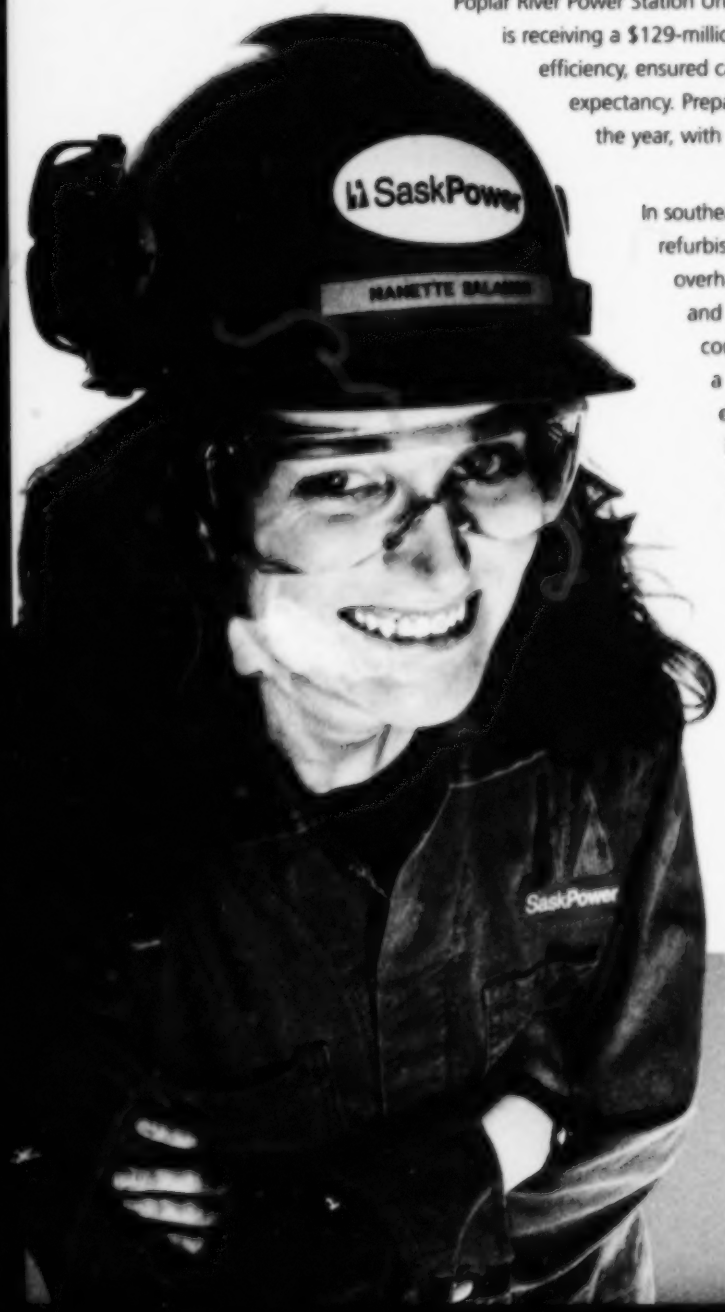
Securing Dependability

With reliability at the foundation of SaskPower's mission, it is essential to maintain a strategic program of renewal throughout the Corporation's vast generation, transmission and distribution system. In 2005, this included major projects at all base load generating stations.

Poplar River Power Station Unit #2, one of the most reliable coal-fired units in North America, is receiving a $129-million upgrade. It will benefit from improved availability, increased efficiency, ensured capacity, reduced particulate emissions and increased life expectancy. Preparations on a rebuild of Unit #1 also took place during the year, with a $145-million upgrade scheduled for completion in 2008.

In southeastern Saskatchewan, a planned turbine-generator refurbishment was undertaken at Shand Power Station. This major overhaul harmonizes the plant with the generating fleet schedule, and utilized the skills of 140 SaskPower employees and 285 contractors. Meanwhile, at nearby Boundary Dam Power Station, a $27-million coal handling project upgraded 30-45 year old electrical and controls equipment with modern components. It will increase reliability and availability, reduce maintenance and operational costs, and provide a better work environment by improving dust control.

In northern Saskatchewan, the final phase of a three-year overhaul of Nipawin Hydroelectric Station is complete with the rebuild of the turbine and generator of 85-MW Unit #2. Nipawin is valued as a low environmental impact hydro source, and while each unit used to be taken out of service annually, the completed overhaul will extend that maintenance cycle to three years, resulting in lower costs and improved service.



Nanette Salamon
Construction Engineer
Power Production

Boundary Dam Power Station's six units have a combined net capacity of 812 MW and together form one of Saskatchewan's most economical sources of electricity. The station's aging coal handling system is receiving a major upgrade in order to enhance reliability and availability.

In addition to completing $61 million in customer connects, SaskPower continued its multi-year plan to upgrade its transmission system in order to meet standards developed by the North American Electric Reliability Council (NERC). As part of the interconnected North American grid, the Corporation must now meet more stringent dependability requirements and adhere to policies guiding essential links with neighbouring utilities. For NorthPoint Energy Solutions, SaskPower's wholly-owned energy marketing and trading subsidiary, 2005 was the first year of managing SaskPower's natural gas activities. This formal change further strengthens the Corporation's ability to coordinate fuel supply requirements in the face of volatile natural gas pricing.

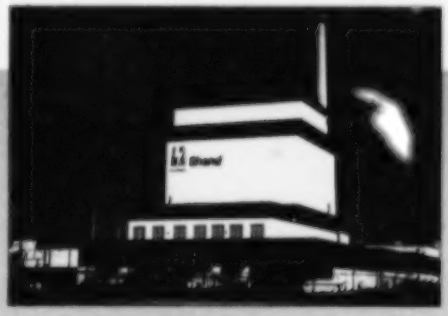
SaskPower's Wood Pole Replacement Program was ongoing during the year, with another $[illegible] million of required improvements made to deteriorating facilities. This work results in increased safety, system security, decreased power quality issues and improved import/export capabilities. Major line construction also took place, with a rebuild underway of the 54-kilometre transmission line from Meadow Lake to Beauval. Once complete, service along the entire northwest corridor through to LaLoche and other northern communities will improve. In addition, the design and construction of a new 76-kilometre transmission line from Pelican Narrows to Island Falls will help eliminate the requirement for standby diesel generators to stabilize the voltage on the existing system in winter months.

Whatever system improvement or new construction SaskPower may undertake, we always endeavour to maximize the use of the province's goods and services. Since initiating the Supplier Development Program in 1983, the Corporation has purchased more than $4.7 billion of goods and services from Saskatchewan suppliers (excluding fuel and purchased power), averaging $217 million per year. In 2005, SaskPower representatives visited LaRonge, Prince Albert, North Battleford, Nipawin, Hudson Bay, Carlyle and Meadow Lake to strengthen relations with current and potential suppliers.

Supporting Company and Community

With over 2,400 individuals in Saskatchewan communities, one of SaskPower's greatest strengths is its employees. Over the next 10 years, the majority of our workforce will be eligible to retire. As a result, SaskPower continues to emphasize the importance of current and future leadership with a new phase of succession planning and the establishment of Leading For Success II to follow up on the Corporation's initial employee development program.

A team of 140 SaskPower employees and 285 contractors have successfully completed a planned overhaul at Shand Power Station. Crews disassembled and rebuilt the turbine and generator of the 279-MW unit, while refurbishing a variety of facilities at the plant.



SaskPower also continues to make progress in creating a representative workforce. A new recruitment strategy now standardizes the recruitment process and commits the Corporation to hiring 60 diversity candidates each year for the next five years. Meanwhile, a SaskPower employee engagement survey is helping to better identify drivers that contribute to creating a constructive work environment.

In an inaugural year characterized by planning and rapid growth, the Corporate Safety Department established an organizational structure, as well as a strategic and business plan. The corporate-wide Safety Management System (SMS) was successfully registered under the OHSAS 18001 standard for the first time, while 2006 will see the roll out of a comprehensive safety program designed to enhance employee and contractor safety culture and performance at all levels. SaskPower also plans on stepping up efforts to take our safety message to customers.

The safety of customers is not only paramount when it comes to the use of electricity, but also in the protection of their personal information. With a database containing information on more than 441,000 customers, all of the Corporation's locations are well on their way to being compliant with principles established in SaskPower's Privacy Management Program.

Our place in the community is not only determined by the Corporation's business activities, but also by a desire to join others in improving quality of life. Every year, we support initiatives related to education, environment and safety through donations exceeding $1 million. In 2005, SaskPower participated in a diverse range of programming, including the sponsorship of the Native Plant Society of Saskatchewan, which is restoring prairie habitat in the province through natural seed development and distribution.

Milton Tootoosis
Diversity Advisor
Human Resources

A new recruitment strategy is helping SaskPower address the challenge of succession planning while creating a representative workforce. The Corporation is committed to enhancing its workplace profile by 60 diversity candidates annually over the next five years.

In addition, SaskPower's Shand Greenhouse completed its Western Red Lily Centennial Project, helping to strengthen the presence of the increasingly rare flower in Saskatchewan's landscape. Through the initiative, approximately 80,000 lily seedlings were distributed to environmental and horticultural organizations – as well as Saskatchewan schools and individuals from across the province who were chosen through a random draw – for use in planting projects. Named Saskatchewan's floral emblem in 1941, the rare plant is now protected under *The Provincial Emblems and Honours Act*.

Energizing Today for Tomorrow

Historically, SaskPower has met the unique challenges associated with its massive service area and harsh climate in innovative ways – using a single wire ground return distribution system to deliver power to farmyards in rural areas, finding effective ways to burn lignite coal in larger, base load stations and employing satellite technology to control generation facilities.

The legacy of these advances is a company that prides itself on maximizing efficiencies, ensuring effective risk management, maintaining high standards of accountability, preserving quality service and developing excellence.

As the search for sustainable growth and development continues, the integrity, creativity and insight of SaskPower and its employees will drive the future of a company that reflects the values of the customers it serves.

Danielle Jacques, Utility Operator, Boundary Dam Power Station, and Jonathan Froh, Apprentice Power Line Technician, Weyburn, in flame resistant work clothing, the subject of a new safety code of practice.

management's discussion and analysis

Management's Discussion and Analysis (MD&A) highlights the primary factors that have an impact on the financial results and operations of Saskatchewan Power Corporation (SaskPower). It should be read in conjunction with the audited financial statements and accompanying notes. This MD&A contains forward-looking statements based on the Corporation's estimates and assumptions concerning future results and events. Due to the risks and uncertainties inherent in any forecasted outlook, the actual results of the Corporation could differ materially from those anticipated.

PROFILE

SaskPower is the principal supplier of electricity in Saskatchewan. SaskPower's mission is to deliver power in a safe, reliable, cost-effective and environmentally responsible manner.

Founded as the Saskatchewan Power Commission in 1929, SaskPower was set up in 1949 and operates primarily under the mandate and authority of *The Power Corporation Act* (the Act). It grants SaskPower the exclusive franchise and obligation – within the province (except for the City of Swift Current and City of Saskatoon) – to supply, transmit and distribute electricity, as well as provide service to customers. The Corporation has opened Saskatchewan's wholesale electricity market to competition through the posting of an Open Access Transmission Tariff (OATT). The OATT allows competitors to schedule access to SaskPower's transmission system to wheel power through Saskatchewan or sell to the Corporation's wholesale (reseller) customers.

SaskPower serves more than 441,000 customers and manages $4.1 billion in assets. In 2005, the Corporation contributed more than $800 million to the provincial economy through the procurement of over 80% of goods and services from Saskatchewan suppliers; the payment of wages and benefits to its employees; the purchase of coal; and the acquisition of electricity from Independent Power Producers (IPP). The contributions also include $14 million in grants-in-lieu of taxes payable to local governments and approximately $46 million in coal royalties, water rentals and provincial corporate capital tax payable directly to the Province of Saskatchewan. The Corporation also collected $37 million in municipal surcharges for redistribution to 419 cities, towns and villages.

SaskPower maintains 154,269 kilometres (km) of power lines (12,159 km transmission and 142,110 km distribution). This extensive network is designed to serve Saskatchewan's large geographic area and widely dispersed population. The Corporation supplies about three customers per circuit kilometre, while most utilities in North America average about 12 customers over the same distance.

SaskPower has 2,425 permanent full-time employees in three business units, eight corporate groups and three wholly-owned subsidiaries.

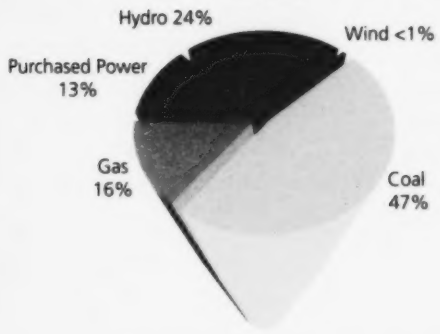
The Corporation's aggregate generating capacity as at December 31, 2005, was 3,505 megawatts (MW). This includes the 3,056 MW capacity of SaskPower's own facilities – three coal-fired stations, seven hydro stations, four natural gas stations and one wind generation facility.

Meanwhile, the Corporation – through its subsidiary SaskPower International – is nearing completion of the Centennial Wind Power Facility. Once fully commissioned in early 2006, it will provide an additional 150 MW of generating capacity.

SaskPower also has available generation capacity of 449 MW through long-term power purchase agreements with the gas-fired Cory Cogeneration Station near Saskatoon, the Meridian Cogeneration Station at Lloydminster and the SunBridge Wind Power Project near Swift Current.

In addition, the Corporation has interconnections at the Manitoba, Alberta and North Dakota borders. These provide SaskPower with the capability to import or export electricity to meet excess demand or take advantage of export market opportunities. Under normal system conditions the import capability is 275 MW from Manitoba, 75 MW from Alberta and 150 MW from North Dakota. The import from Manitoba and North Dakota is interdependent, and subject to a combined maximum capacity. The export capability is 300 MW to Manitoba, 153 MW to Alberta and 200 MW to North Dakota. These interconnection capabilities vary with system conditions, including generation and load level. In compliance with OATT, the Corporation is required to compete with other suppliers for access to these interconnections.

2005 Generation Capacity
(net MW)



Total Generation Capacity: 3,505 MW

Over 70% of SaskPower's generation capacity comes from coal-fired and hydro stations. However, natural gas and purchased power remain significant sources of generation.

Long-term Supply Plan

SaskPower's future will see an expanded need for capital investment as the Corporation renews its infrastructure. The next two decades will see the refurbishment or replacement of much of the existing generating fleet. As well, new capacity will be added to accommodate growing electrical energy demand within the province.

All potential technologies are being considered in relation to economics, environmental performance and operational parameters. As with SaskPower's current fleet, it is likely that future needs will be met from diverse sources – using a variety of fuels and a range of technologies. Innovative policies regarding energy conservation and demand side management will also be examined, as they represent possible environmentally friendly and cost-effective solutions.

A critical factor in making decisions will be evolving environmental regulation. Standards are becoming increasingly stringent for all industrial processes, including the generation of electricity. The role of new greenhouse gas (GHG) emission regulations is particularly significant, but by no means the sole issue at stake. The further development of new regulations concerning all emissions will have a significant influence on any new supply source decisions.

In the immediate future, SaskPower will be engaged in two projects that will review emerging technologies. The first involves examining – with financial assistance from the federal government – the feasibility of a clean coal facility that will manage the byproducts of coal combustion to a near zero-emissions standard. The second involves studying the potential for the construction and operation of a polygeneration plant in partnership with private sector petrochemical industry interests. Polygeneration involves the generation of electricity using the byproduct from industrial processes.

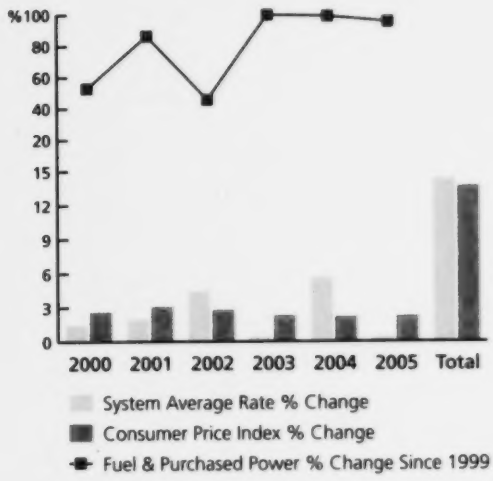
SaskPower is also looking at other technologies that may be utilized on a smaller scale, such as biomass facilities (wood or agricultural wastes), hydro and other sustainable supplies from Independent Power Producers (IPP). A final decision on the next major source of generation is expected to be made in 2007.

Rate Review Process

Electricity pricing in Saskatchewan is subject to review by the Saskatchewan Rate Review Panel (the Panel) with final approval by cabinet. In July 2005, the Corporation submitted a rate application to the Panel requesting a 4.9% system-wide rate increase effective October 1, 2005. In September 2005, the effective date of the proposed increase was deferred to January 1, 2006, due to improved hydro conditions in the province that resulted in lower fu and purchased power costs.

In November 2005, the Panel completed its review of SaskPower's application and advised cabinet to approve the Corporation's system-wide average rate increase of 4.9%. In December 2005, cabinet accepted the Panel's recommendation and approved the rate increase effective January 1, 2006. The rate increase is expected to provide SaskPower with approximately $60 million of additional revenue in 2006.

Rate Changes Compared to Changes in Consumer Price Index and Fuel & Purchased Power Costs



Since 1999, system average rate increases have remained in line with the cumulative rate of inflation while fuel and purchased power costs have increased nearly 100%

FINANCIAL RESULTS

(in millions)	2005	2004	Change
Net income	**$ 131**	$ 66	$ 65
Return on equity[1]	**9.2%**	4.8%	4.4%

1. Return on equity = (net income)/(average equity), where average equity = [(total equity at year end + total equity at previous year end)/2].

Highlights – *Solid Results, Improved Revenue Offset by Small Increase in Expense*

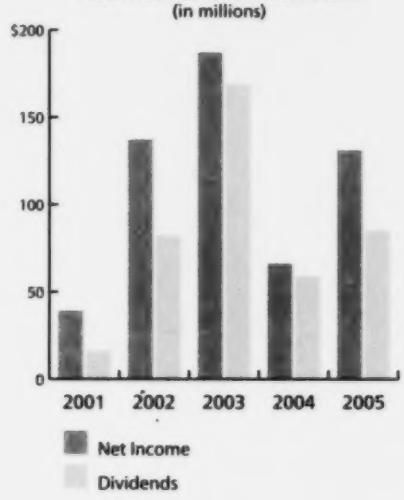
The Corporation's consolidated net income was $131 million in 2005, an increase of $65 million from 2004. This resulted in a return on equity of 9.2% compared to 4.8% in the previous year.

The dramatic increase in earnings in 2005 was largely due to improved revenues. Saskatchewan sales revenue increased over 2004 as a result of a full year's impact of the 5.65% system-wide rate increase implemented on September 1, 2004. There was also an increase in export revenues due to higher average prices and increased sales volumes.

On the expense side, improved hydro conditions in 2005 resulted in a decrease in fuel and purchased power costs compared to 2004. Finance charges were also down, largely due to an increase in the amount of interest capitalized as a result of construction of the Centennial Wind Power Facility and other large capital projects. These decreases were offset by increases in operating, maintenance and administration expenses and taxes.

In 2005, the Corporation declared $85 million in dividends compared to $59 million in 2004.

Net Income and Dividends
(in millions)



Over the last five years, SaskPower has declared $411 million in dividends payable to the Crown Investments Corporation.

Outlook

SaskPower expects to earn $95 million in 2006, resulting in a return on equity of 6.5%. The projected decline in earnings is largely due to an expected increase in fuel and purchased power expense as a result of an anticipated decline in hydro generation and continuing high natural gas prices.

Depreciation and finance charges are also expected to climb largely as the result of the start of operations at the Centennial Wind Power Facility. No additional system-wide rate increases have been forecasted for 2006.

These earnings expectations are subject to a number of variables including: natural gas pricing; coal and hydro availability; weather; economic conditions; number of customers; and market conditions in other jurisdictions.

Revenue – All Revenue Classes Up

(in millions)	2005	2004	Change
Saskatchewan sales	$ 1,181	$ 1,132	$ 49
Export sales	114	97	17
Other	31	28	3
Total revenue	$ 1,326	$ 1,257	$ 69

A) Saskatchewan Sales – *Full Year Impact of System-wide Rate Adjustment Boosts Revenue*

Revenue from Saskatchewan electric sales was $1,181 million in 2005, up $49 million from the previous year. The system-wide rate change – effective September 1, 2004 – increased Saskatchewan electricity rates by an average of 5.65% and resulted in approximately $30 million of additional revenue in 2005.

Also contributing to the improvement in revenue was a modest increase in electric sales volumes. These are driven by general economic conditions, number of customers and weather. In 2005, Saskatchewan electric sales were 17,133 gigawatt hours (GWh), up 239 GWh or just over 1% from the prior year. Volumes were up marginally in all customer classes with the exception of farm customers, where sales were down slightly.

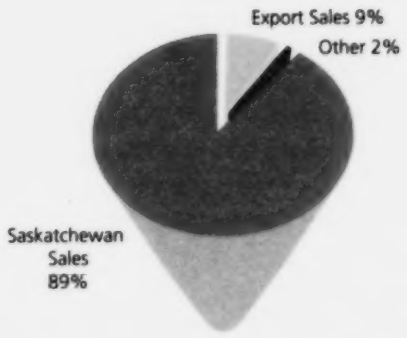
In 2005, SaskPower's total Saskatchewan customer base increased by 2,527, up approximately 1% over 2004.

B) Export Sales – *Prices and Volumes Up*

Export sales include revenue from the export of SaskPower generation and revenue from electricity trading activities. Export pricing is not subject to the rate review process and is determined by the external market. Sales volumes are dependent on general economic conditions and supply in other jurisdictions.

Export revenues increased from $97 million in 2004 to $114 million in 2005. The increase in export sales revenue was a result of a 132 GWh rise in sales volumes due to increased demand within the Ontario and Midwest Independent Transmission System Operator (MISO) markets. In addition, the 2005 average export price of $68/megawatt hour (MWh) was up $5/MWh from 2004.

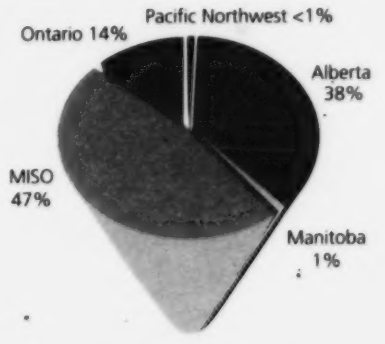
2005 Revenue



Total Revenue: $1,326 million

While SaskPower's export sales increased in 2005, Saskatchewan sales continued to make up the majority of revenue.

2005 Export Revenue by Market



2005 Export Revenue: $114 million

SaskPower received the bulk of export revenue in 2005 from Alberta, Ontario and MISO markets.

C) Other Revenue – Improved MRM Equity Earnings

Other revenues increased from $28 million in 2004 to $31 million in 2005. The increase was largely due to improved equity investment income from the MRM Cogeneration Station, located north of Fort McMurray, Alberta. The improved earnings were primarily the result of higher average Alberta Power Pool prices – $70/MWh in 2005 compared to $55/MWh in 2004.

Outlook

The Corporation expects Saskatchewan sales revenues to increase in 2006. This anticipated growth is due to the effect of the 4.9% rate increase implemented January 1, 2006, and a 2% increase in sales volumes. Meanwhile, export sales are expected to remain largely unchanged in 2006. These expectations are subject to significant variability as a result of weather, economic conditions, supply, number of customers and market conditions in other jurisdictions.

Expense – Fuel & Purchased Power Remain Most Significant Cost

(in millions)	2005	2004	Change
Fuel and purchased power	$ 491	$ 500	$ (9)
Operating, maintenance and administration	336	317	19
Depreciation	189	189	-
Finance charges	147	157	(10)
Taxes	32	28	4
Total expense	**$ 1,195**	$ 1,191	$ 4

A) Fuel and Purchased Power – Benefits of Exceptional Hydro Conditions Lessened by Rising Natural Gas Costs

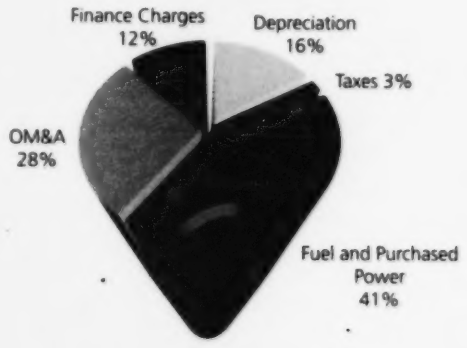
The Corporation's fuel cost management strategy focuses on the economic dispatch of generating units, bringing the lowest cost units on stream first. In general, this means maximizing hydro and coal generation, which have the lowest marginal cost per unit of generation. Hydro generation is dependent upon water levels at SaskPower's hydro facilities and coal generation is a product of the availability of the Corporation's coal plants.

In 2005, total fuel and purchased power costs were $491 million compared to $500 million in 2004. The reduction in costs was due to an improvement in SaskPower's fuel mix – the relative proportion that each fuel source contributes to total fuel supply. The more energy that is generated from lower cost units, such as hydro and coal, the more favourable the impact on fuel and purchased power costs.

In 2005, water levels at the Corporation's hydroelectric plants were at near record levels as the result of heavy rainfalls in Saskatchewan and Alberta during the year. This permitted SaskPower to increase hydro generation by 1,827 GWh or 67% over 2004.

Offsetting the improved fuel mix were higher natural gas prices, which resulted in an increase in the cost of electricity generated at SaskPower's gas-fired plants and electricity purchased from other producers. In 2005,

2005 Expense



Total Expense: $1,195 million

Fuel and purchased power costs are SaskPower's single largest expenditure, accounting for 41% of total expense in 2005.

the benchmark AECO-C price of natural gas was at an average of about $8.00/gigajoule (GJ), which is substantially higher than an average of approximately $6.40/GJ in 2004. The AECO-C Hub is one of the major natural gas storage facilities in North America and has become a Canadian reference point for pricing of natural gas markets.

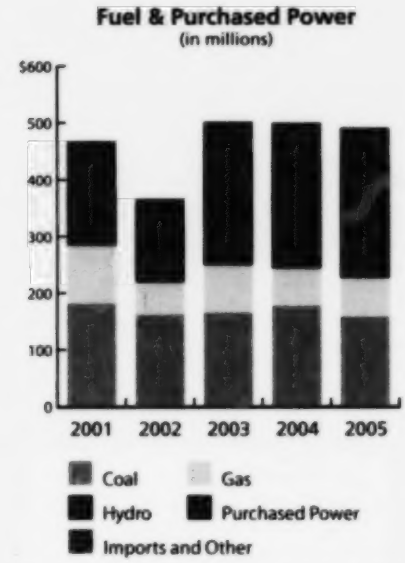
Further offsetting the improved fuel mix was a 213 GWh increase in total generation and purchased power required to support higher Saskatchewan and export sales.

Outlook

Fuel and purchased power is the Corporation's most volatile expense and has the potential to vary dramatically. In 2006, these costs are expected to increase significantly due to continuing high natural gas prices and a reduction in hydro generation relative to 2005. Additional factors that will have the biggest impact on fuel costs are coal generation availability, import prices and the levels of Saskatchewan and export sales.

B) Operating, Maintenance and Administration (OM&A) – *One-time Items Push Up Costs*

OM&A expense was $336 million in 2005, compared to $317 million in 2004. This $19 million increase was largely the result of increased bad debt expense, as well as charges for a defined benefit plan.



Despite the improvement in hydro generation in 2005, fuel and purchased power costs remain at near record high levels due to rising natural gas costs.

Total OM&A Expense: $336 million

Wages and salaries make up the largest portion of operating, maintenance and administration expenses. Other administration expenses include bad debt, vehicles, insurance and other costs.

Bad debt expense of $10 million was up $8 million over 2004. The primary reason is a $7 million provision taken for an outstanding receivable due from the Meadow Lake Pulp Limited Partnership (MLPLP). The MLPLP is a large power customer that was granted protection under the *Companies' Creditors Arrangement Act* (CCAA) on December 28, 2005. As a result, SaskPower's ability to collect on the outstanding receivable has been severely impaired. The provision represents 100% of the amount owing to the Corporation at the time of the CCAA filing.

In accordance with a Court Order, SaskPower has an arrangement with the MLPLP to provide the Corporation with regular payments for electricity delivered on a go-forward basis.

The Corporation also recorded a one-time $4 million charge to OM&A in respect to one of its defined benefit plans. This non-cash charge was required in accordance with Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461 as a result of the introduction of a defined contribution plan to replace an existing defined benefit plan.

The remaining increase in OM&A expense was primarily due to higher costs for external services and materials for maintenance at the Corporation's power plants, as well as transmission and distribution facilities.

Outlook

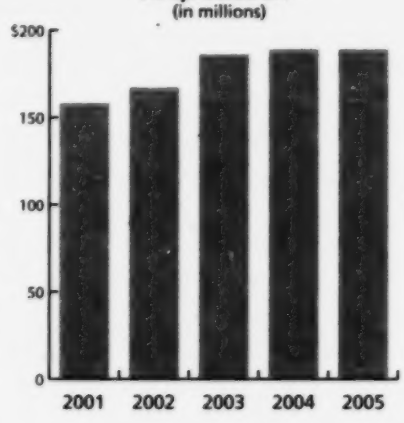
The Corporation expects OM&A costs to increase in 2006 as the result of additional expenditures associated with the engineering and feasibility studies being conducted by SaskPower and others to design a prototype for a 300-MW clean coal-fired generating unit. The impact of the higher costs due to collective bargaining settlements, increasing maintenance costs on the Centennial Wind Power Facility and other inflationary forces will be offset by the elimination of the above one-time charges incurred in 2005.

C) Depreciation – *Levels Remain Constant*

Depreciation expense amounted to $189 million in 2005, which is consistent with 2004. Despite the Corporation's continued program of capital investment, depreciation levels remained unchanged as increased depreciation on generation and distribution assets was offset by a decrease in depreciation for computer equipment. The decline was largely the result of a reduction in the depreciation rate due to a program adopted to extend the useful life of the Corporation's computer assets.

Outlook

In 2006 depreciation expense is expected to increase as SaskPower begins to amortize the Centennial Wind Power Facility, combined with additional depreciation associated with an ongoing expansion and renewal of SaskPower's capital infrastructure.



Depreciation costs have flattened out since 2003.

D) Finance Charges – Lower Due to Capitalized Interest

Finance charges of $147 million in 2005 were down $10 million from 2004. This decrease was primarily due to a $17 million increase in the amount of interest capitalized during construction, largely attributable to the construction of the 150-MW Centennial Wind Power Facility. The favourable effect of the increase in capitalized interest was partially offset by higher interest on long-term debt as a result of additional borrowings.

Outlook

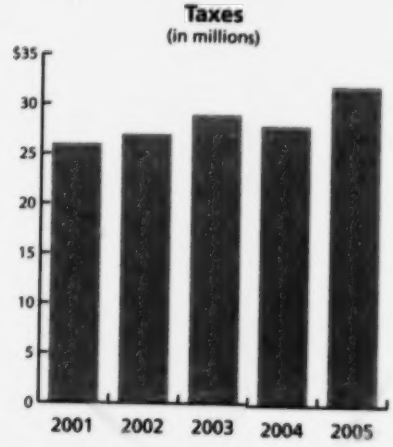
In 2006, finance charges are expected to increase as a result of a decrease in the amount of interest capitalized and an expected increase in the Corporation's debt.

E) Taxes – Up Due to One-time Charge in 2004

Capital tax, grants-in-lieu of taxes and other taxes increased to $32 million in 2005 from $28 million in 2004. This increase is largely a result of a one-time $4 million favourable capital tax adjustment recorded in 2004.

Outlook

Taxes are expected to increase moderately in 2006.



Tax levels have remained relatively stable over the last five years.

Liquidity and Capital Resources – Additional Debt Improves Cash Position

A) Operating Activities – Providing Additional Cash

(in millions)	2005	2004	Change
Operating cash flow	$ 310	$ 249	$ 61
Net change in non-cash working capital	(13)	40	(53)
Cash provided by operating activities	$ 297	$ 289	$ 8

Operating cash flow was $310 million in 2005, up from $249 million in 2004. This increase is consistent with the growth in net income. The change in non-cash working capital of the Corporation was down $53 million in 2005 compared to 2004. This decline was due to higher accounts receivable and higher natural gas inventory. Overall, this resulted in a net $8 million increase in cash provided by operating activities.

B) Investing Activities – Upgrading and Expanding Capital Facilities

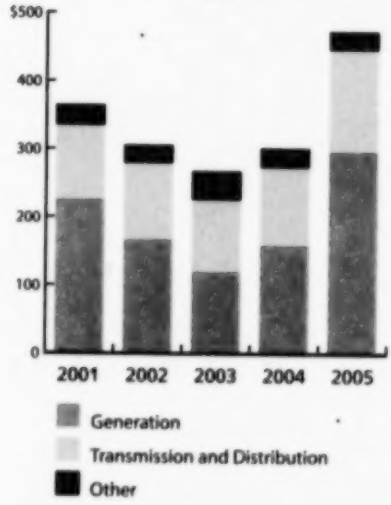
(in millions)	2005	2004	Change
Generation	$ 297	$ 158	$ 139
Transmission and distribution	150	115	35
Other	26	28	(2)
Total capital expenditures	473	301	172
Customer contributions and net cost of removals	(16)	(12)	(4)
Cash used in investing activities	$ 457	$ 289	$ 168

In order to ensure a safe, reliable, cost-effective and environmentally responsible supply of electricity for its customers, SaskPower invested $473 million in various capital projects during 2005, compared to $301 million in 2004. Major capital investments included:

Generation

- $188 million, through its subsidiary SaskPower International, to develop the 150-MW Centennial Wind Power Facility near Swift Current, Saskatchewan;
- $38 million to extend the life of 281-MW Unit #2 at Poplar River Power Station; and
- $19 million to upgrade the Boundary Dam Power Station coal handling system.

Capital Expenditures
(in millions)



SaskPower has invested over $1.7 billion in its capital infrastructure during the last five years.

Transmission and Distribution

- $61 million to connect customers to the SaskPower electric system;
- $17 million to provide the interconnection for the Centennial Wind Power Facility;
- $16 million to reinforce the transmission line from Island Falls to Pelican Narrows to secure supply to the northern part of the province;
- $12 million for a dispatch radio system essential for the day-to-day operations of field staff in Transmission and Distribution and Northern Hydro; and
- $9 million to replace aging wood power poles to enhance the safety and reliability of overhead electrical lines.

Outlook

SaskPower expects to continue to make substantial investments in its infrastructure. Capital expenditures in 2006 are forecast to be $278 million. This includes completion of the refurbishment of Poplar River Unit #2, initiation of Poplar River Unit #1 upgrade, several transformer and transmission line upgrades, as well as connecting new customers to SaskPower's grid.

C) Financing Activities - *New Borrowings to Finance Capital Program*

In 2005, financing activities provided $121 million in cash compared to $100 million in 2004. The following table illustrates the impact of financing activities on the Corporation's debt.

Long-term Debt

(in millions)	2005	2004	Change
Gross long-term debt	$ 2,467	$ 2,181	$ 286
Less: sinking fund balances	(170)	(140)	(30)
Long-term debt net of sinking funds	2,297	2,041	256
Less: current portion of long-term debt	(73)	(93)	20
Total long-term debt	$ 2,224	$ 1,948	$ 276
Per cent debt ratio[1]	60.9%	58.2%	2.7%

1. Per cent debt ratio = (debt)/(debt + equity), where debt = (long-term + current portion of long-term debt - cash and short-term investments).

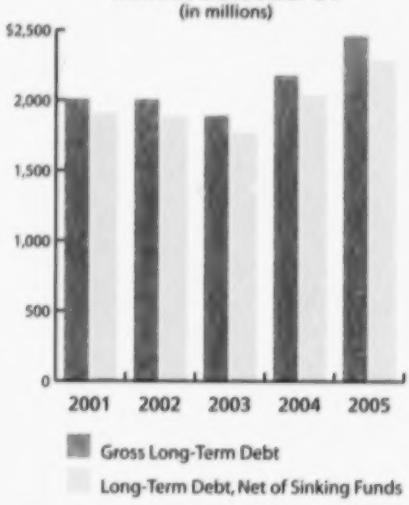
SaskPower's long-term debt position, net of sinking funds, was $2,297 million at December 31, 2005, up $256 million from December 31, 2004. The rise in net debt was the result of the following:

- The Corporation, through the Saskatchewan Department of Finance, borrowed $300 million of long-term debt with an interest rate of 5.00% and a maturity date of March 5, 2037.
- The Corporation repaid $72 million of Canadian dollar denominated debt, with interest rates ranging from 10.80% to 12.57%.
- Through its subsidiary, SaskPower International, the Corporation repaid $3 million of non-recourse debt.
- The sinking fund balances increased $30 million as the result of installments, earnings and foreign exchange losses during the year.

- In 2005, the Corporation completed hedging all U.S. $569 million of its U.S. dollar debt and subsequently transferred the debt and related hedges to Saskatchewan Finance in return for an equivalent amount of Canadian dollar debt. The Corporation also transferred U.S. $67 million of related U.S. dollar sinking funds to Saskatchewan Finance in return for an equivalent amount of Canadian dollar denominated sinking funds. The conversion resulted in a $61 million reclassification of the U.S. dollar hedges from other liabilities to long-term debt.

As a result of the increase in net debt, the Corporation's per cent debt ratio has risen to 60.9% in 2005 from 58.2% in 2004.

Debt at December 31
(in millions)



Debt levels have been increasing to finance the Corporation's capital expenditures.

Outlook

In February, 2006, the Corporation borrowed an additional $100 million of Canadian debentures at an all-in-cost of 4.7%. The proceeds will be used to refinance $52 million of high coupon (9.36% - 10.72%) and non-recourse debt maturing in the next year; fund $21 million of required sinking fund contributions; and finance capital expenditures. The Corporation will evaluate the need for additional borrowings throughout the year.

The Corporation has the authority to borrow up to $5 billion including $51 million credit facilities at financial institutions.

Contractual Obligations

SaskPower had the following significant long-term contractual obligations as at December 31, 2005.

(in millions)	2006	2007	2008	2009	After 2010	Total
Long-term debt	$ 52	$ 66	$ 340	$ 7	$ 2,002	$ 2,467
Sinking fund installments	$ 21	$ 23	$ 23	$ 20	$ 401	$ 488
Power purchase agreements	$ 242	$ 234	$ 229	$ 222	$ 3,812	$ 4,739

SASKPOWER SUBSIDIARIES

SaskPower has three wholly-owned subsidiaries: SaskPower International Inc. (SaskPower International), NorthPoint Energy Solutions Inc. (NorthPoint) and Power Greenhouses Inc. (Shand Greenhouse).

Each subsidiary prepares and issues separate audited financial statements. The financial activities of SaskPower's subsidiaries are consolidated within the financial statements of SaskPower in accordance with Canadian generally accepted accounting principles (GAAP) as summarized below. Shand Greenhouse grows and distributes tree and shrub seedlings and operates on a break-even basis. The financial results of this subsidiary are not considered to be material and have been included in the SaskPower Utility results.

2005 Segmented Statement of Income and Financial Position

(in millions)

	SaskPower Utility *(Notes 1 & 3)*		SaskPower International		NorthPoint		Adjusting Entries *(Note 2)*		Consolidated SaskPower	
Statement of Income	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Revenue	**$ 1,285**	$ 1,230	**$ 26**	$ 22	**$ 53**	$ 38	**$ (38)**	$ (33)	**$ 1,326**	$ 1,257
Expense	**1,159**	1,166	**22**	21	**41**	31	**(27)**	(27)	**1,195**	1,191
Net income	**$ 126**	$ 64	**$ 4**	$ 1	**$ 12**	$ 7	**$ (11)**	$ (6)	**$ 131**	$ 66
Statement of Financial Position										
Current assets	**$ 553**	$ 347	**$ 35**	$ 13	**$ 34**	$ 24	**$ (257)**	$ (13)	**$ 365**	$ 371
Property, plant and equipment	**3,272**	3,187	**344**	157	**-**	-	**-**	-	**3,616**	3,344
Other assets	**151**	200	**46**	45	**-**	-	**(77)**	(130)	**120**	115
Total assets	**$ 3,976**	$ 3,734	**$ 425**	$ 215	**$ 34**	$ 24	**$ (334)**	$ (143)	**$ 4,101**	$ 3,830
Current liabilities	**$ 287**	$ 303	**$ 262**	$ 5	**$ 21**	$ 12	**$ (255)**	$ (10)	**$ 315**	$ 310
Long-term debt	**2,134**	1,855	**90**	93	**-**	-	**-**	-	**2,224**	1,948
Other liabilities	**124**	186	**1**	49	**-**	-	**1**	(53)	**126**	182
Total liabilities	**2,545**	2,344	**353**	147	**21**	12	**(254)**	(63)	**2,665**	2,440
Equity	**1,431**	1,390	**72**	68	**13**	12	**(80)**	(80)	**1,436**	1,390
Total liability and equity	**$ 3,976**	$ 3,734	**$ 425**	$ 215	**$ 34**	$ 24	**$ (334)**	$ (143)	**$ 4,101**	$ 3,830

Notes:

1. Includes Shand Greenhouse expense of $1 (2004 - $1) and assets of $4 (2004 - $4).
2. Adjusting entries eliminate inter-company transactions upon consolidation.
3. SaskPower Utility results are presented on the cost basis.
4. The complete subsidiary financial statements are available at saskpower.com.

SaskPower International

Profile

SaskPower International was established in 1994 as a wholly-owned subsidiary of SaskPower and is mandated to seek new sources of revenue for the Corporation. This includes investing in power-related projects and selling flyash. SaskPower International currently has an ownership interest in three power generating stations, as follows:

- The 228-MW Cory Cogeneration Station, located at the PCS Potash Cory Division, is jointly owned on a 50/50 basis with ATCO Power. The electricity generated by the facility is sold to SaskPower under the terms of a 25-year power purchase agreement. The steam is delivered to the PCS Potash Cory Division for use in its industrial processes.
- The 170-MW MRM Cogeneration Station, located at the Athabasca Oil Sands Project's Muskeg River Mine north of Fort McMurray, Alberta, is owned 30% by SaskPower International and 70% by ATCO Power. The Muskeg River Mine uses all the steam output from the plant and approximately half of the electricity output. The remaining electricity is sold into the Alberta power grid.
- SaskPower International is currently constructing the 150-MW Centennial Wind Power Facility, scheduled for completion in early 2006. Owned by SaskPower International, this $250-million facility is located approximately 25 kilometres southeast of Swift Current and is part of SaskPower's Green Power Portfolio.

SaskPower International's other business line is the marketing and sale of flyash, which is a byproduct of coal burned at SaskPower's Boundary Dam Power Station and Shand Power Station. The flyash is used in applications such as ready-mixed concrete, concrete block, pipe, paving stones and environmental remediation activities, including oil well cementing, mine backfill and road base stabilization.

Financial Overview

Net income was $4 million in 2005, up $3 million from 2004, primarily due to an increase in equity investment income from the MRM Cogeneration Station.

Revenue

Total revenues were $26 million in 2005, an increase of $4 million from 2004. The growth was primarily due to a $1 million increase in revenues from the Cory Cogeneration Station as the result of higher plant availability and a $3 million increase in equity investment income. Equity investment income from the MRM Cogeneration Station was $3 million in 2005, compared to break even in 2004. The increase in earnings is primarily the result of higher Alberta Power Pool prices, somewhat offset by higher natural gas prices. The Alberta Power Pool price is the hourly wholesale market price of electricity that is coordinated by the Alberta Electric System Operator (AESO). The average Alberta Power Pool price was $70/MWh in 2005 compared to $55/MWh in 2004.

Expense

Total expense of $22 million in 2005 was $1 million higher than 2004. The growth was primarily due to an increase in Saskatchewan Corporate Capital Tax and an increase in Cory Cogeneration Station operating expense.

Outlook

SaskPower International's net income is expected to remain unchanged in 2006 compared to 2005. Higher operating and maintenance expenses for the Cory Cogeneration Station are expected to be offset by income from the Centennial Wind Power Facility, which will begin its first year of commercial operations in 2006. MRM and Cory Cogeneration Station earnings are projected to be positive and vary from year to year, primarily due to each plant's maintenance cycle requirements. MRM Cogeneration Station earnings can also vary due to market fluctuations in Alberta Power Pool and natural gas prices. The Centennial Wind Power Facility earnings are projected to be positive, but can vary from year to year, due to natural fluctuations in wind speeds.

NorthPoint Energy Solutions Inc.

Profile

NorthPoint is a wholly-owned subsidiary of SaskPower. It was formed in late 2001 to meet requirements associated with SaskPower's OATT that mandate the separation of transmission and wholesale marketing functions.

NorthPoint has a service agreement with SaskPower to perform generation and load management services, as well as to provide electricity export and import functions related to the Corporation's generation assets. Continuous generation and load management services include coordinating the economic dispatch of SaskPower's total available capacity of 3,056 MW and of 449 MW from three long-term power purchase agreements. Electricity export and import functions include selling surplus generation to other jurisdictions, as well as purchasing electricity for domestic load when shortfall in supply occurs or lower cost supply is available.

Effective January 1, 2005, NorthPoint assumed responsibility for management of the Corporation's natural gas supplies for its natural gas-fired power plants. These management services include coordinating and balancing SaskPower's natural gas requirements, managing injections to and withdrawals from the Corporation's natural gas storage assets, and managing natural gas price risk with physical and financial hedging activity.

NorthPoint also acts as a principal in wholesale electricity trading transactions that do not relate to the generation assets of SaskPower. It actively participates in markets in the Northwest United States, Mid-Continental United States, Alberta, Manitoba and Ontario. NorthPoint operates mainly under two umbrella-trading agreements: Mid-Continent Energy Marketers Association Tariff and Western Systems Power Pool Agreement.

Financial Overview

Net income for 2005 was $12 million, an increase of $5 million over 2004. NorthPoint declared $11 million in dividends payable to SaskPower, a significant increase over the $6 million dividend in 2004.

Revenue

Electricity trading revenue was $46 million in 2005, compared to $31 million in 2004. The $15 million increase in 2005 over 2004 reflects an 86 GWh or 16% increase in volumes, as well as $6 million of additional revenue from financial transmission rights and other energy market revenue. There was also a $6/MWh increase in average sale prices due to higher prices during the latter part of the year. The growth in the average sale price was offset by an increase in the average purchase price, and the margins earned on electricity sales in 2005 actually decreased slightly as compared to 2004. However, the new streams of financial transmission rights revenue and other energy market revenue increased overall energy trading income. The majority of electricity sales – $33 million - were made to Canadian counterparties, with the remaining $13 million made to U.S. counterparties. Sales to U.S. counterparties increased in 2005 with the opportunities provided by the new MISO market.

In 2005, NorthPoint earned $7 million in service revenue, which was consistent with 2004. Service revenue from SaskPower provides approximately 13% of total revenues of NorthPoint.

Expense

The cost of electricity purchased rose to $37 million in 2005 from $27 million in 2004. This increase was due to a 74 GWh or 13% increase in the volumes required to fulfill the increase in electricity sales, as well as a $9/MWh increase in the average purchase price of electricity. Administration expense of $4 million increased by about $1 million due to the additional expenses of the gas management group, as well as costs relating to upgrading NorthPoint's deal capture system.

Outlook

Despite the exceptional results of 2005, sales revenue and net income are expected to return to 2004 levels in 2006 and remain relatively flat over the next few years. This expectation reflects the oversupply condition that currently exists in markets available to NorthPoint. The excessive supply condition is expected to improve over several years. In the meantime, NorthPoint is faced with the challenge of finding attractive trading opportunities and marketing SaskPower's excess generation. NorthPoint continues to attempt to grow revenues by entering new markets, such as the PJM Interconnection in the Northeastern United States. These expectations are subject to significant variability as a result of weather, economic conditions and market conditions in other jurisdictions.

OFF-BALANCE SHEET ARRANGEMENTS

The Canadian Institute of Chartered Accountants (CICA) recommends the disclosure of all off-balance sheet arrangements if they have, or are likely to have, a material current or future effect on the financial condition of the corporation. SaskPower has the following off-balance sheet arrangements that are considered to be significant.

A) Derivative Financial Instruments

Financial instruments – such as forward contracts, collars and others – are used to manage the Corporation's exposure to changes in natural gas prices. They are accounted for using hedge accounting (see *Note 2j* to the consolidated financial statements) in compliance with Canadian GAAP. Under this type of accounting, the fair value of the financial instrument is appropriately not recorded on the balance sheet. The gains and losses incurred during the term of the financial instrument are deferred and recognized in earnings in the same period and financial statement category as the related expense item.

The fair value of these derivatives is disclosed in *Note 14* to the consolidated financial statements.

B) Energy Performance Contracts

Energy performance contracts are packages that provide energy savings to certain large commercial customers of SaskPower. The packages are comprehensive facility improvement programs that normally include the installation of new energy efficient equipment, which is intended to pay for itself through energy savings. SaskPower guarantees these energy savings. The guarantees are offset by third party guarantees to the Corporation that ensure the energy savings will be realized.

SaskPower has properly not recorded an asset or liability in respect of these contracts, as the promised energy savings were being realized on all energy performance contracts as of December 31, 2005. In the event that the energy savings were not being realized, SaskPower would be liable to the customer for the guaranteed savings. A payable to the customer and a receivable from the third party that provided an offsetting guarantee to SaskPower would be recorded on the balance sheet.

The value of the guarantees is disclosed in *Note 15(d)* to the consolidated financial statements.

ACCOUNTING POLICIES AND ESTIMATES

SaskPower's significant accounting policies are described in *Note 2* to the consolidated financial statements. Some of these policies involve critical accounting estimates that require management to make particularly subjective or complex judgements about matters that are inherently uncertain. Different conditions or assumptions regarding the estimates could result in materially different results being reported. Management has discussed the development and selection of these critical accounting policies with the Corporation's Audit and Finance Committee and the external auditors.

The following section discusses the critical accounting estimates and assumptions that management has made and how they affect the amounts reported in the consolidated financial statements.

A) Depreciation

Property, plant and equipment represents 88% of total assets recognized on SaskPower's balance sheet. Included in property, plant and equipment are the generation, transmission and distribution, and other assets of the Corporation. Due to the size of SaskPower's property, plant and equipment, changes in estimated depreciation rates can have a significant impact on income.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The estimated useful lives of the assets are based on formal depreciation studies that are performed every five years, with annual reviews for reasonableness. The estimated useful lives are determined based upon manufacturer's guidance on asset life, SaskPower's past experience with similar assets, industry averages, and expectations about future events that could impact the life of the asset. The next depreciation study is scheduled for 2006.

A one-year increase in the average estimated service life of each of the major asset categories of property, plant and equipment would result in a $12 million decrease to depreciation expense in the current year.

B) Employees' Future Benefits

As explained in *Note 2n* and *Note 19* to the consolidated financial statements, the Corporation provides post retirement benefits to employees, including a defined benefit pension plan. Defined benefit pension costs are based on long-term assumptions regarding rate of return on plan assets, discount rates, wage and salary increases, age at retirement, contribution levels and future pension indexing. The actual results over the short term may differ greatly from the long-term assumptions. However, the use of long-term financial assumptions to calculate pension expense is considered appropriate due to the long-term financial commitment that a pension plan represents.

An independent actuary calculates defined benefit pension plan costs based on the long-term assumptions described above. In 2005, the actuary calculated a pension credit of $2 million compared to an expense of $3 million in 2004. This is a non-cash item that is included in operating, maintenance and administration expense on the income statement.

Changes in the long-term assumptions, including the anticipated return on plan assets and the discount rates used in determining the benefit obligation and current period service costs, can have a significant impact on the pension costs of the Corporation.

The expected rate of return on plan assets is based upon past performance and economic forecasts for the types of investments held by the plan. As a result of lower than expected earnings, the long-term rate of return on plan assets was reduced from 6.75% at the beginning of the year to 6.50% at the end of the year.

The discount rate is based on the spot yield for high-grade, long-term Canadian corporate bonds. This rate was reduced from 6.00% at the beginning of the year to 5.25% at the end of the year to reflect the change in bond markets over that period.

A 0.5% increase in both the expected long-term rate of return on plan assets and the discount rate would result in a $3 million decrease in pension expense and a $3 million increase in the defined benefit asset recorded in the consolidated financial statements.

C) Asset Retirement Obligations

SaskPower recognizes asset retirement obligations in the period they are incurred if a reasonable estimate of fair value (net present value) can be determined. An asset retirement obligation is a legal obligation associated with the decommissioning of a long-lived asset. The Corporation recognizes asset retirement obligations to decommission coal, gas and wind generation facilities in the period in which the facility is commissioned. A reasonable estimate of fair value for the transmission, distribution and hydro generation assets can not be determined as these assets are expected to be maintained and operated indefinitely. Therefore, no obligation has been recorded.

The fair value of the estimated asset retirement costs is recorded as a liability under other liabilities, with an offsetting amount capitalized and included as part of property, plant and equipment. The asset retirement obligations are increased annually for the passage of time by calculating accretion (interest) on the liability while the offsetting capitalized asset retirement costs are depreciated over the estimated useful life of the related asset. Accretion expense is calculated using an interest rate that equates to a risk-free interest rate adjusted for the credit standing of the Corporation and is included with depreciation expense.

The calculations of fair value are based on detailed studies that take into account various assumptions regarding anticipated future cash flows, including the method and timing of decommissioning and estimates of future inflation.

A 0.5% increase in the credit-adjusted-risk-free rate (interest rate) would result in a $3 million decrease to the asset retirement obligation, a $1 million decrease to the asset retirement asset and no material impact on depreciation expense in the current year.

D) Unbilled Revenue

Electric revenues are billed on a systematic basis over a monthly or quarterly basis for all SaskPower customer classes. At the end of each month, the Corporation makes an estimate of the electricity delivered to its customers since their last billing date. The estimated unbilled revenue is based on several factors including estimated consumption by customer class, applicable customer rates and the number of days between the last billing date and the end of the period. As at December 31, 2005, total Saskatchewan electricity sales of $1,181 million included $50 million of estimated unbilled revenues.

STRATEGIC PRIORITIES AND CORPORATE BALANCED SCORECARD

SaskPower's vision is to excel in competitive energy markets. In combination with its mission to deliver power in a safe, reliable, cost-effective and environmentally responsible manner, four strategic priorities have been identified that will enable the Corporation to achieve both the vision and mission. Progress is measured via the Corporate Balanced Scorecard. It identifies key areas for each priority and establishes targets that, if achieved, will demonstrate progress in meeting the challenges inherent in accomplishing SaskPower's vision and mission.

1) Building Excellence in Customer Service Delivery

A key to achieving SaskPower's vision is to provide outstanding customer service by anticipating and responding to the requirements and expectations of our various customer segments. The Corporation is pursuing the following initiatives that will help SaskPower deliver excellence in customer services:

- Reviewing and refining plans to enhance management services for key/major account customers;
- Reviewing existing service processes that overlap between the Customer Services and Transmission and Distribution business units with an objective of optimizing service delivery processes;
- Implementing customer self-service capabilities (Internet/telephone) to enhance customer convenience and lower the Corporation's costs;
- Enhancing skills training for service personnel to ensure they are capable of delivering on SaskPower's service excellence promise; and
- Developing and implementing new energy efficiency programming that customers value and complements the broader strategy of the Green Power Portfolio.

The Corporation is also striving to continue to provide an exceptional level of service to customers through investment in asset maintenance to ensure that current levels of reliability can be maintained.

In order to assess progress in building excellence in customer service delivery, the following balanced scorecard measures are tracked:

Corporate Objectives	Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target
Exceeding customer expectation in services	Customer Satisfaction Index (%)	48	38	45	51	52
Maintaining service reliability	Reliability System Average Interruption Duration Index (SAIDI)	4.4	3.3	4.2	4.3	4.3
	Reliability System Average Interruption Frequency Index (SAIFI)	1.8	1.7	1.7	1.7	1.7

Customer Satisfaction Index – is a measure of the percentage of customers who are "completely or very satisfied" with SaskPower's level of service. The 2005 results were below the Corporation's target but were significantly improved from the previous year's results, although below the 2003 data. Rate increases are seen to have a significant impact on the level of satisfaction and are one of the key obstacles to improvement in this critical area. The targets have been established with an objective of achieving continual improvements in the level of customer satisfaction.

Reliability System Average Interruption Duration Index (SAIDI) – is a measure of the average service interruption length in hours from a customer's point of view. This is used to track the performance in responding to outages. The SAIDI measure was better than target in 2005, but somewhat below the excellent results experienced in 2004. The 2006 target remains slightly above this year's results to reflect an upward trend due to an aging infrastructure that is expected to impact the duration of outages. Nonetheless, SaskPower's SAIDI results are significantly better than the Canadian average of 5.28[1].

Reliability System Average Interruption Frequency Index (SAIFI) – is a measure of the average service interruption frequency from a customer's point of view. This is used to track the overall performance of SaskPower's distribution system. The SAIFI measure was on target in 2005 and is also better than the Canadian average of 2.30[1]. The target for 2006 has been set with an objective of maintaining the existing service levels.

1. "2004 Annual Service Continuity Report on Distribution System Performance in Electrical Utilities" - Canadian Electricity Association, July 2005.

2) Developing SaskPower's People

Everything SaskPower does is achieved through its most important resource – people. The Corporation's continued emphasis on supporting and developing its employees is an essential component to future success. Every indication suggests that the challenge in attracting and retaining a skilled and motivated workforce will be increasing in the near to medium term and beyond.

i) Ensuring the Safety of SaskPower's Workforce

Improving safety performance continues to be a major priority. Following the hiring of the Chief Safety Officer in late 2004, it was primarily a year of planning in 2005. In addition to developing a centralized Corporate Safety Department with more than 20 professionals, a safety plan was also developed for SaskPower. It contains four strategic safety objectives for the Corporation:

- Continuous improvement of SaskPower's Safety Management System (SMS);
- Creation of a culture where safety is as important as anything SaskPower does and part of everything the Corporation does;
- Development of a safety organization capable of leading SaskPower to the realization of its business objectives; and
- Execution of industry-leading health and safety performance.

Seventeen key elements and 20 standards were also identified for SaskPower's SMS, which was registered in 2005 for the first time under the OHSAS 18001 Standard. Based on priority following a risk assessment, a schedule has been developed to introduce the standards, codes, practices and processes into the Corporation. The introduction of these measures was underway in 2005, with the objective of having them all integrated into SaskPower's operations by the end of 2007. The Corporation's primary methods for measuring safety performance are related to injury frequency and severity. SaskPower experienced improvement in these areas in 2005, with further advancements forecasted in future years.

ii) Achieving a Constructive Culture

Retention and engagement are key components of ensuring sufficient workforce capacity in the future. The Corporation anticipates a high turnover in the managerial and supervisory ranks over the next 10 years. To address this challenge, SaskPower has embarked upon a Leadership Development Program, Leading For Success, in partnership with the Banff Centre. This two-part leadership development program focuses on improving the leadership capacity of those with people responsibilities at all levels. At the executive and managerial levels, a succession planning program is also in development. Scheduled to be rolled out in early 2006, the new program will be based on leadership competencies that are critical to the future of SaskPower. SaskPower measures the number of employees who have completed the Leadership Development Program as a measure of success in this area.

SaskPower's ability to maintain a successful relationship with its two unions – International Brotherhood of Electrical Workers (IBEW) Local 2067 and Communications, Energy and Paperworkers (CEP) Local 649 – is also important to future success. In 2005, the Corporation negotiated new collective bargaining agreements with both the IBEW and CEP unions.

An employee engagement survey was completed in late 2005 that provided insight into how SaskPower can improve its ability to attract, motivate and retain its best employees. A strategy to respond to this survey will be developed in 2006.

iii) Building a Representative Workforce

The large number of expected retirements presents both a challenge and an opportunity. Focus has begun to shift to sourcing available candidates for future vacancies. Much of this effort has been in the four diversity groups, as this is seen as a significant opportunity for SaskPower to overcome potential skill shortages while becoming more representative of the available Saskatchewan workforce.

In 2005, the Corporation established a set of diversity targets that continue to drive activity at all levels throughout the organization. A recruitment strategy addresses roles, sourcing, measurements and hiring principles approved to support the Corporation's efforts. Targets and recruitment strategies will be reviewed at the end of the year.

To track progress in this area, the Corporation measures the percentage of employees who are identified as belonging to one of the Corporation's four diversity groups – Aboriginal, visible minorities, female employees in under-represented positions and individuals with disabilities.

In order to assess progress in developing SaskPower's people, the following balanced scorecard measures are tracked:

Corporate Objectives	Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target
Ensuring the safety of SaskPower's workforce	**Injury Severity Rate**	**93**	**143**	**40**	**50**	**40**
	Injury Frequency Rate	**2.1**	**2.7**	**1.9**	**3.0**	**2.5**
Achieving a constructive culture	**Number of employees who participated in the Leadership Development Program**	**84**	**97**	**90**	**120**	**120**
Building a representative workforce	**Percentage of employees who self-identify as Aboriginal**	**•**	**4.4**	**5.1**	**5.9**	**6.9**
	Percentage of employees who self-identify as a visible minority	**•**	**1.5**	**1.9**	**2.1**	**2.5**
	Percentage of female employees in under-represented positions	**•**	**2.7**	**8.5**	**8.1**	**8.8**
	Percentage of employees who self-identify as a person with a disability	**•**	**1.5**	**1.5**	**2.0**	**2.4**

Note: "•" denotes that actuals were not available for that period.

Injury Severity Rate – is a measure of the severity of injuries incurred at work during the year based on the number of days lost due to injury. The 2005 Injury Severity Rate was sharply improved in comparison to 2004. The 2006 target remains at the 2005 level, with a long-term objective of achieving a steady decline over the next number of years.

Injury Frequency Rate – is a measure of the number of injuries or illnesses that result in lost work time during the year. The 2005 Injury Frequency Rate of 1.9 was better than the target, and a significant improvement over 2004. The 2006 and long-term targets were set with the objective of achieving steady improvements in this area.

Leadership Development Program – is a measure of the number of management and in-scope supervisory staff who participated in the Leadership Development Program. The long-term target is to train all management and supervisory staff. The number of staff who attended leadership training was under the target for 2005, although at levels experienced in 2003 and 2004. The second phase of the program is well underway and participation rates are expected to climb in 2006.

Building a Representative Workforce – is a series of four measures of the four designated target groups (Aboriginal people, visible minorities, disabled persons and female employees in under-represented positions) expressed as a percentage of total employees. The results are mixed, with Aboriginals, visible minorities and employees with disabilities continuing to be under represented and below target. Female employees in under-represented positions were slightly ahead of target. Plans remain in place to continue to improve the results in this area in 2006 and beyond.

3) Promoting Environmental Stewardship

The future health of SaskPower will largely rely on the extent to which it can manage the environmental challenges it faces. Increasingly stringent environmental regulation will materially affect how the Corporation conducts its operations.

The operation of SaskPower's coal-fired generating facilities will be primarily affected, but no aspect of the SaskPower's generating fleet is exempt. The Kyoto Protocol and the control of GHG emissions are issues with the highest profile. Despite much work throughout Canada during 2005, the federal and provincial governments have yet to determine how the provisions of the Kyoto Protocol are to be effected, and what role corporations such as SaskPower will be expected to play in achieving the established goals.

There are other emission guidelines that the Corporation will also have to address. These include New Source Emission Guidelines [involving sulphur dioxide (SO_2), nitrogen oxides (NO_x) and particulate matter], mercury emission guidelines and other possible substance or emission guidelines. It continues to remains unclear as to how, to what extent, and when new regulations regarding these emissions will be developed and implemented. Increased stringency with respect to standards will mean sharply increased costs for producing the same amount of energy or premature retirement of the existing fleet and investment in other technologies to replace it.

Management of the rivers that SaskPower has dammed for hydro generating purposes is another area of increasing focus by a variety of stakeholders. This includes the federal Department of Fisheries and Oceans, which is charged with ensuring the conservation and protection of fish and fish habitat. The continued use of rivers for power generation may be constrained in the future, especially projects involving the installation of significant hydro facilities.

Finally, the question of land use for transmission and distribution lines, including the management of vegetation control technologies, will remain a key area in which the Corporation's environmental stewardship will be stressed. The installation of new facilities requires consultation with a number of locally affected interests regarding routes and the management of the project in question. For existing lines, a key maintenance issue is the control of vegetation around the towers and lines through the manual clearing of vegetation and the application of approved herbicides on routes to control future growth. SaskPower is constantly seeking ways to achieve a sound level of vegetation control and improved reliability of the system itself.

SaskPower's commitment to environmental stewardship is articulated in the Corporation's mission statement – SaskPower is committed to protecting the environment while providing its customers with safe, reliable and cost-effective sources of electricity. The Corporation has embarked on the following projects and initiatives in compliance with the policy:

- Investing in wind power generation, including the 11-MW Cypress Wind Power Facility, 11-MW SunBridge Wind Power Project and construction of the 150-MW Centennial Wind Power Facility (to be completed in early 2006);
- Selecting projects to provide 13 MW of power generation for the first phase of the Environmentally Preferred Power (EPP) Program, and embarking on a request for proposal and project analysis component of the second phase of the EPP Program;
- Demonstrating small scale distributed generation (DG) technologies, including heat recovery, flared gas, biogas and solar energies;
- Utilizing heat from the Shand Power Station at SaskPower's Shand Greenhouse to grow and distribute nearly half a million tree seedlings annually province-wide;
- Working with the Canadian Clean Power Coalition, a joint venture of coal-fired electricity generators which contributes to the development of clean coal technology;
- Influencing awareness about electricity and the environment through educational programs, energy audits and efficiency initiatives, and contributing to the protection of the province's ecosystems;
- Partnering with larger customers through the Energy Performance Contracting (EPC) service, which reduces energy use in a cost-effective way through the retrofitting of lighting, cooling, ventilation and building automation systems; and
- Demonstrating an international mercury emissions project at Poplar River Power Station, involving new activated carbon injection technology.

Through these and other initiatives, SaskPower is clearly demonstrating that environmental action is a fundamental part of the Corporation's approach to business.

In order to assess progress in promoting environmental stewardship, the Corporation focuses on tracking measures related to the achievement of the Green Power Portfolio:

Corporate Objectives	Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target
Green Power Portfolio	**Development of up to 15 MW/year of EPP contracts (cumulative total MW)**	•	•	**5.0**	**≤15**	**≤30**
	Cumulative installed capacity from DG pilots (total MW)	•	**0.3**	**0.1**	**0.9**	**1.2**
	Cumulative installed wind generation capacity (total MW)	**22**	**22**	**112**	**172**	**172**

Note: "•" denotes that actuals were not available for that period.

Green Power Portfolio – there are a number of measures associated with the implementation of SaskPower's Green Power Portfolio. The first covers the successful implementation of the EPP Program. This is proving to be slightly slower than expected, but intentions remain to complete the full program by the end of 2007. The second area covers DG pilot projects. These have largely been concluded, with a biomass facility associated with a wood processing facility being the focus for 2006. This was expected to have been implemented in 2005, but delays have pushed it into 2006 and possibly 2007. Finally, the completion of the Centennial Wind Power Facility in early 2006 is expected to push the Corporation's cumulative installed wind generation capacity to 172 MW.

4) Ensuring Sound Financial Management

Sound financial management is integral to ensuring that SaskPower continues to provide a reasonable return on the assets of the Corporation, as well as providing safe, reliable, cost-effective and environmentally responsible power. The Corporation measures its success in achieving sound financial management using a number of measures, including net income of SaskPower and its subsidiaries, return on equity and per cent debt ratio.

The most significant financial challenge that SaskPower faces is the volatility of its largest expense – fuel and purchased power cost. Fuel and purchased power includes the costs for coal, natural gas, hydro, purchased power and imports. These expenditures have doubled in the last six years, increasing from $251 million in 1999 to just under $500 million in 2005. Much of this increase is attributable to a shift in the mix of SaskPower's generation supply. In recent years, the Corporation has secured long-term supplies of generation, utilizing a more environmentally friendly fuel – natural gas. This includes the construction of the Cory Cogeneration Station, the Meridian Cogeneration Station and the repowering of the natural gas-powered Queen Elizabeth Power Station. However, gas-fired and cogeneration sources of generation are six to seven times more expensive per unit of energy than coal-fired generation at prevailing prices. This shift in the Corporation's fuel mix is affecting SaskPower's underlying cost structure.

The other factor that impacts the mix of generation in any given year is the availability of economical sources of generation, such as hydro and coal. Hydro generation is dependent upon water levels at the Corporation's hydro facilities while coal generation is a product of the availability of the Corporation's coal plants. When coal or hydro generation is not sufficiently operable, other more expensive sources of generation, such as gas-fired generation or imports, must make up the difference.

SaskPower is actively engaged in fuel cost management activities for coal and natural gas. For coal-fired generation, these activities include a preventative maintenance program intended to maximize the amount of generation produced from these units. For natural gas-fired generation, the Corporation has a comprehensive natural gas hedging strategy intended to minimize the volatility of natural gas prices in 2005 and beyond.

To measure success in managing fuel and purchased power costs, SaskPower tracks the availability of its coal-fired generating units – a product of the Corporation's preventative maintenance program. The greater the availability of these generating units, the more favourable the impact on SaskPower's fuel and purchased power costs.

The Corporation also monitors the percentage of Saskatchewan content in SaskPower purchases. Saskatchewan vendors have played a large part in the past financial success of the Corporation and are considered to be a key to SaskPower's continued success.

In order to assess progress in ensuring sound financial management, the following balanced scorecard measures are tracked:

Corporate Objectives	Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target
Achieving SaskPower's financial target	**Return on equity (%)**	**13.6**	**4.8**	**9.2**	**5.9**	**6.5**
	Consolidated net income ($ millions)	**187**	**66**	**131**	**83**	**95**
	Saskatchewan content in SaskPower purchases (%)	**78**	**83**	**83**	**75**	**75**
	Per cent debt ratio (%)	**56.5**	**58.2**	**60.9**	**62.3**	**61**
Maximizing low cost generation	**Coal unit availability 1-year average (EAF%)**	**82.9**	**87.1**	**86.9**	**86.1**	**83.6**
Achieving subsidiaries' financial targets	**SaskPower International net income ($ millions)**	**2**	**1**	**4**	**–**	**4**
	NorthPoint net income ($ millions)	**6**	**7**	**12**	**7**	**7**

Return on Equity – is a measure of net income expressed as a percentage of total equity. The target reflects an appropriate rate of return relative to other Canadian electrical utilities. The return on equity was slightly higher than targeted primarily due to the increase in net income. SaskPower's return on equity target in 2006 reflects higher expected fuel and purchased power, depreciation and finance charges.

Consolidated Net Income – is a measure of the accumulated net income of SaskPower and its subsidiaries after adjusting for inter-company transactions. The 2005 consolidated net income of $131 million was substantially higher than targeted. The 2006 target reflects an expectation of increasing fuel and purchased power, depreciation and finance charges.

Saskatchewan Content in SaskPower Purchases – is a measure of the percentage of goods and services that were procurred from Saskatchewan vendors (excluding fuel and purchased power). In 2005, the Corporation exceeded its Saskatchewan content in SaskPower purchases target. The 2006 target remains unchanged from previous years.

Per Cent Debt Ratio – is a measure of debt expressed as a percentage of the total corporate financing structure. The target reflects a prudent level of debt for an electrical utility. The 2005 per cent debt ratio of 60.9% was below the target of 62.3%. The increase in the per cent debt ratio over 2004 is due to the additional borrowing for the purposes of capital investment. The target is essentially unchanged from the 2005 actuals.

Coal Unit Availability 1-year Average – is a measure of the overall availability of the coal units, in a given period, to generate at their maximum continuous rating. The coal unit availability was better than target due to the success of SaskPower's maintenance program and the capital investment in upgrades and refurbishments. Production problems in the coal fleet will be felt immediately on the bottom line as the replacement power is natural gas-fired and hence costly. The 2006 target has declined because of large overhauls planned for 2006.

SaskPower International Net Income – is a measure of the net income of the subsidiary. SaskPower International exceeded its net income target in 2005. The 2006 net income is expected to remain flat.

NorthPoint Net Income – is a measure of the net income of the subsidiary. NorthPoint's net income results exceeded target in 2005 due to favourable market conditions. The 2006 net income is anticipated to remain relatively flat.

RISK MANAGEMENT

SaskPower's Board of Directors (Board) approves the risk management framework for the Corporation. The framework includes the risk exposure guidelines, tolerances and control structures within which management will conduct SaskPower's business. The Risk Management Committee, chaired by the President and CEO, is responsible for implementing Board-approved policies and for directing and monitoring the development, implementation, conduct, control and reporting of SaskPower's risk management activities.

The following risk exposures are the major factors that could affect SaskPower's future results.

i) Operational Risk

SaskPower's generation, transmission and distribution assets are subject to equipment failure, which may lead to outages. SaskPower completes regular maintenance and major upgrades to mitigate the risk of an outage. Additionally, a significant portion of SaskPower's labour force is unionized. SaskPower's operations may be disrupted in the event of a labour dispute. The Corporation is in the final year of a three-year agreement with its largest union, IBEW Local 2067. The Corporation signed an agreement with its other union, CEP Local 649, in 2005. This agreement is in effect until January 31, 2007.

Uncontrollable risks also may impact SaskPower's operations. As an example, low water levels may reduce the availability of hydroelectricity and severe storms may result in temporary outages.

SaskPower is also subject to risks such as an accidental loss of assets and business interruption. The Corporation utilizes two methods for dealing with these risks. Loss prevention methods are applied in instances where the risks can be controlled, eliminated or transferred. Loss prevention involves engineering, administrative and operating staff working to identify risks and the development of loss prevention solutions. Secondly, SaskPower purchases insurance to minimize its exposures to certain risks. SaskPower primarily seeks insurance for catastrophic events only and the deductibles on the major insurance types are set so that premiums are maintained at reasonable levels.

ii) Commodity Price Risk

SaskPower primarily has an exposure to fluctuations in the quantities and prices of commodities used in the generation of electricity and an exposure to variability in the market prices of electricity.

SaskPower has minimized the coal price exposure by securing long-term fixed price fuel supply contracts for its coal-fired generation. The contracts in place expire no earlier than 2009.

Short-term natural gas prices have become very volatile, underscoring the need for an effective risk management plan. SaskPower's natural gas price risk management plan targets a balanced approach to managing costs at a reasonable level through the use of physical purchases, storage and financial instruments. Objectives of the plan are to reduce the risk related to natural gas price volatility while still maintaining some upside potential if prices decline. As at December 31, 2005, SaskPower had hedged 40% of the Corporation's anticipated natural gas exposure for 2006 with financial instruments.

Additionally, SaskPower's electricity trading activities are exposed to fluctuations in electricity prices. The Board has approved limits on the maximum size, type and level of risk of a transaction. As at December 31, 2005, SaskPower had no significant open positions.

iii) Foreign Exchange Rate Risk

SaskPower has exposure to various currencies due to electricity trading activities and the acquisition of goods and services from foreign suppliers. The Corporation manages the exposures using a variety of hedging instruments, including foreign currency forward contracts and cross-currency swaps. Hedging activities are conducted in accordance with Board-approved guidelines and are regularly reported to the Risk Management Committee.

Prior to 2006, SaskPower had significant exposure to long-term debt denominated in U.S. dollars. However, in 2005 SaskPower completed the hedging of its U.S. dollar debt exposures, which it began in 2003. The hedging was accompanied by a conversion of the U.S. dollar debt to Canadian dollar debt through a transaction with Saskatchewan Finance. This hedging and conversion has reduced SaskPower's U.S. dollar debt exposure to zero as at December 31, 2005.

iv) Interest Rate Risk

SaskPower is exposed to changes in interest rates on its short term investments, the refinancing of maturing long-term debt and new financing. Additionally, interest rate changes may influence the performance and cost of SaskPower's defined benefit pension plan. As at December 31, 2005, 100% of the Corporation's debt was at fixed rates.

v) Credit Risk

Credit risk exposure is the risk that a counterparty will fail to perform its present or future obligations resulting in a loss to the Corporation. As an example, credit risk exposure may be quantified as the cost of replacing a physical or financial instrument or the loss incurred when a counterparty fails to make payment on billed invoices.

Credit risk is managed by adhering to approved credit policies established by management and approved by the Board. Ongoing monitoring of all material counterparties is in place to ensure credit limits are reduced or eliminated as market events occur. As at December 31, 2005, all credit exposures were within the limits stated in the approved guidelines.

vi) Changing Environmental Regulations

SaskPower is actively engaged with provincial and federal authorities to monitor and, where possible, guide emerging environmental regulations which would affect SaskPower's operations. While there is considerable uncertainty regarding the details of these emerging changes, SaskPower anticipates that a general reduction in air emissions and greater care of affected habitats will be required over the next decade. These changes will increase the cost of producing and delivering electric power.

report of management

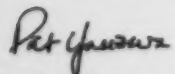
The consolidated financial statements of Saskatchewan Power Corporation (SaskPower) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The preparation of financial statements necessarily involves the use of estimates based on management's best judgement, particularly when transactions affecting the current period cannot be finalized with certainty until future periods. In management's opinion, the consolidated financial statements have been properly prepared within the framework of selected accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, information available up to February 6, 2006. The financial information presented in the Management's Discussion and Analysis (MD&A) and elsewhere in this report is consistent with that in the consolidated financial statements.

Management maintains appropriate systems of internal control which provide reasonable assurance that the Corporation's assets are safeguarded and appropriately accounted for, that financial records are relevant, reliable and accurate and that transactions are executed in accordance with management's authorization. This system includes corporate-wide policies and procedures, as well as the appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these controls on an ongoing basis and reports its findings to management and the Audit and Finance Committee of the Board of Directors.

The Board of Directors, through the Audit and Finance Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit and Finance Committee consists entirely of outside Directors. At regular meetings the Committee reviews audit, internal control and financial reporting matters with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities. The MD&A, consolidated financial statements and the external auditors' report have been reviewed by the Audit and Finance Committee and have been approved by the Board of Directors. The internal and external auditors have full and open access to the Audit and Finance Committee, with and without the presence of management.

The consolidated financial statements have been examined by Deloitte & Touche LLP, Chartered Accountants, as appointed by the Crown Investments Corporation of Saskatchewan and approved by the Lieutenant Governor in Council. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report, which follows, outlines the scope of their examination and sets forth their opinion.

On behalf of management,



Pat Youzwa
President and Chief Executive Officer
February 6, 2006

W. Davern Jones
Vice-president and Chief Financial Officer

auditors' report

To the Members of the Legislative Assembly of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Power Corporation as at December 31, 2005, and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Regina, Saskatchewan
February 6, 2006

consolidated statement of income and retained earnings

(in millions)

For the year ended December 31	2005	2004
Revenue		
Electric sales		
Saskatchewan	$ 1,181	$ 1,132
Export	114	97
Other	31	28
Total revenue	1,326	1,257
Expense		
Fuel and purchased power *(Note 4)*	491	500
Operating, maintenance and administration	336	317
Depreciation *(Note 5)*	189	189
Finance charges *(Note 6)*	147	157
Taxes *(Note 7)*	32	28
Total expense	1,195	1,191
Net income	131	66
Retained earnings, beginning of year	730	723
Dividends	(85)	(59)
Retained earnings, end of year	$ 776	$ 730

See accompanying notes

consolidated statement of financial position

(in millions)

As at December 31	2005	2004
Assets		
Current assets		
Cash and short-term investments *(Note 8)*	$ 65	$ 104
Accounts receivable and unbilled revenue	161	149
Materials, fuel and supplies	139	118
	365	371
Property, plant and equipment *(Note 9)*		
Property, plant and equipment	5,950	5,753
Less: Accumulated depreciation	2,703	2,529
	3,247	3,224
Construction in progress	369	120
	3,616	3,344
Other assets *(Note 10)*	120	115
Total assets	$ 4,101	$ 3,830
Liabilities and equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 166	$ 152
Accrued interest	54	51
Current portion of long-term debt *(Note 11)*	73	93
Dividend payable	22	14
	315	310
Long-term debt *(Note 11)*	2,224	1,948
Other liabilities *(Note 12)*	126	182
Total liabilities	2,665	2,440
Equity		
Equity advances *(Note 13)*	660	660
Retained earnings	776	730
Total equity	1,436	1,390
Total liabilities and equity	$ 4,101	$ 3,830

Commitments and contingencies *(Note 15)*

See accompanying notes

On behalf of the Board:

Patricia A.G. Quaroni, LLB
Chair

Lyn Kristoff, FCA
Director

consolidated statement of cash flows

(in millions)

For the year ended December 31	2005	2004
Operating activities		
Net income	$ 131	$ 66
Add (deduct) items not involving cash:		
Depreciation *(Note 5)*	189	189
Foreign exchange gains *(Note 6)*	-	(3)
Defined benefit pension plan (credit) expense *[Note 19(b)]*	(2)	3
Sinking fund earnings *(Note 6)*	(13)	(8)
Equity investment income *(Note 10)*	(3)	-
Other	8	2
Operating cash flow	310	249
Net change in non-cash working capital *(Note 16)*	(13)	40
Cash provided by operating activities	297	289
Investing activities		
Property, plant and equipment	(439)	(268)
Interest capitalized during construction *(Note 6)*	(20)	(3)
Escrow fund deposits *(Note 10)*	2	(18)
Cash used in investing activities	(457)	(289)
Decrease in cash before financing activities	(160)	-
Financing activities		
Advances from the Province of Saskatchewan *(Note 11)*		
Canadian dollar denominated debt - proceeds	300	400
- repayment	(72)	(58)
Short-term advance repayment	-	(30)
Non-recourse debt - repayment	(3)	(2)
Sinking fund installments net of redemptions	(19)	(17)
Debt premium net of issue costs *(Note 12)*	(3)	6
Defined benefit pension plan contribution *[Note 19(a)]*	(5)	(7)
Dividends paid	(77)	(140)
Other agreements payable	-	(52)
Cash provided by financing activities	121	100
(Decrease) increase in cash and short-term investments	(39)	100
Cash and short-term investments, beginning of year	104	4
Cash and short-term investments, end of year	$ 65	$ 104
Supplemental information:		
Cash paid for interest	$ 179	$ 173
Cash paid for grants-in-lieu of taxes	15	14
Cash paid for capital tax	16	16

See accompanying notes

notes to the consolidated financial statements

As at December 31, 2005

1. Status of the Corporation

Saskatchewan Power Corporation (SaskPower; the Corporation), a provincially-owned Crown corporation, generates, purchases, transmits, distributes and sells electricity and related products and services. Founded as the Saskatchewan Power Commission in 1929, SaskPower was set up in 1949 and operates primarily under the mandate and authority of *The Power Corporation Act*.

By virtue of *The Crown Corporations Act*, 1993, SaskPower has been designated a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC. As a provincial Crown corporation, the Corporation is not subject to federal income tax, provincial income tax or federal large corporations tax.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The following accounting policies are considered significant:

(a) Use of Estimates

The timely preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Actual results could differ from those estimates, which may impact the actual results reported in future periods.

(b) Consolidation and Investments

These consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, NorthPoint Energy Solutions Inc. (NorthPoint), Power Greenhouses Inc. (Shand Greenhouse), and SaskPower International Inc. (SaskPower International). All inter-company transactions have been eliminated on consolidation. Separate audited financial statements are prepared for each subsidiary.

The Corporation accounts for its joint venture interests using the proportionate consolidation method.

The Corporation accounts for investments over which it exerts significant influence using the equity method. The investment is initially recorded at cost and the carrying value adjusted thereafter to include the Corporation's proportionate share of post acquisition earnings of the investment.

(c) Short-Term Investments

Short-term investments have an average maturity date of 90 days or less from the date of acquisition. These investments are carried at cost which approximates market value. *(Note 8)*

(d) Materials, Fuel and Supplies

Maintenance materials, fuel, supplies and plant repair parts are recorded at the lower of average cost and net realizable value. Materials are charged to inventory when purchased and then expensed or capitalized when installed.

(e) Property, Plant and Equipment

Property, plant and equipment is recorded at original cost and includes material, direct labour, overhead costs and interest during construction. The Corporation capitalizes interest based on the weighted average cost of long-term borrowings.

Costs are capitalized provided there is reasonable certainty they will provide benefits into the future. Significant renewals and enhancements to existing assets are capitalized only if the service life of the asset is increased; physical output, service capacity or quality is improved above original design standards; or operating costs are reduced by a substantial and quantifiable amount. Maintenance and repair costs are expensed as incurred.

Contributions in aid of construction are funds received from certain customers toward the costs of service extensions. Contributions are netted against property, plant and equipment and are amortized over the estimated service life of the related asset.

Assets under construction are recorded as construction in progress until they are operational and available for use, at which time they are transferred to property, plant and equipment. *(Note 9)*

(f) Depreciation

Depreciation is calculated on a straight-line basis over the estimated service life of the related asset. The estimated useful life of property, plant and equipment is based on current facts, past experience and the potential for technical obsolescence. Estimated service lives of the assets are periodically reviewed and any changes are applied prospectively. Depletion on long-term coal properties is calculated using the unit of production method based on estimated proven reserves.

The average estimated service life of new assets for the major categories of property, plant and equipment are:

Asset	Average Service Life in Years
Generation:	
Coal	30 years
Natural gas	24 years
Hydro	50 years
Cogeneration	30 years
Wind	20 years
Transmission	35 - 50 years
Distribution	35 - 40 years
Other	3 - 50 years

Depreciation expense also includes the gain or loss on both the complete and partial disposal of assets and accretion expense on asset retirement obligations. *(Note 5)*

(g) Asset Retirement Obligations

The Corporation recognizes asset retirement obligations in the period they are incurred if a reasonable estimate of fair value (net present value) can be determined. An asset retirement obligation is a legal obligation associated with the decommissioning of a long-lived asset. The Corporation recognizes asset retirement obligations to decommission coal, gas and wind generation facilities in the period in which the facility is commissioned. A reasonable estimate of fair value for the transmission, distribution and hydro generation assets can not be determined as these assets are expected to be maintained and operated indefinitely. Therefore, no obligation has been recorded.

The fair value of the estimated asset retirement costs is recorded as a liability in other liabilities with an offsetting asset capitalized and included as part of property, plant and equipment. The asset retirement obligations are increased annually for the passage of time by calculating accretion (interest) on the liability while the offsetting capitalized asset retirement costs are depreciated over the estimated useful life of the related asset. The accretion expense is calculated using an interest rate that equates to a risk-free interest rate adjusted for the credit standing of the Corporation and is included with depreciation expense.

The calculations of fair value are based on detailed studies that take into account various assumptions regarding the anticipated future cash flows including the method and timing of decommissioning and estimates of future inflation.

Asset retirement obligations are revised periodically in accordance with changes in assumptions and estimates underlying the calculations and with experience arising from the removal of property, plant and equipment. Changes are recognized as an increase or decrease in the carrying amount of the liability for the asset retirement obligation and the related asset retirement cost. *(Notes 5 and 12)*

(h) Asset Impairment

The Corporation evaluates its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Factors which could indicate an impairment exists include significant changes in the Corporation's strategy or underperformance of assets relative to projected future operating results. An impairment is recognized when the carrying amount of an asset exceeds the undiscounted projected future net cash flows expected from its use and disposal. It is measured as the amount by which the carrying amount of the asset exceeds its fair value. As at December 31, 2005, the Corporation determined that there was no impairment of value to its long-lived assets and therefore no write down was required.

(i) Environmental Remediation Liabilities

Environmental remediation liabilities are accrued when the occurrence of an environmental expenditure, related to present or past activities of the Corporation, is considered probable and the costs of remedial activities can be reasonably estimated. These estimates include costs for investigations, remediation, operations, maintenance and monitoring at identified sites. These liabilities are based on management's best estimate considering current environmental laws and regulations and the estimates have been recorded at undiscounted amounts. The Corporation reviews its estimates of future environmental expenditures on an ongoing basis. *(Note 12)*

(j) Financial Instruments

Financial instruments (derivatives) are utilized by the Corporation to reduce the exposure to fluctuations in natural gas prices. The Corporation utilizes hedge accounting to record gains and losses relating to derivatives that are designated as hedges. Under hedge accounting, gains and losses are deferred and recognized in the same period and financial statement category as the related items hedged. The derivatives are not recorded on the balance sheet.

In order to qualify for hedge accounting, the derivatives must be designated by management as being a hedge and must be effective both at inception and on an ongoing basis. The Corporation designates derivatives as being a hedge through the formal documentation of all relationships between hedging instruments and hedged items, as well as by its risk management policy and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions.

Management ensures the hedge effectiveness for natural gas derivatives is achieved by assessing whether the derivatives that are used in the gas hedging transactions are highly effective in offsetting changes in the cash flows of the natural gas purchases. *(Note 14)*

(k) Foreign Currency Translation

Revenues and expenditures resulting from transactions in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated using the exchange rate in effect on the balance sheet date. Any resulting foreign currency translation gains and losses are included in the consolidated statement of income in the current period.

(l) Revenue Recognition

Electricity pricing in Saskatchewan is subject to review by the Saskatchewan Rate Review Panel with final approval by cabinet.

Electrical revenue is recognized upon delivery to the customer and includes an estimate of electrical deliveries not yet billed at year-end.

Electricity trading revenues are reported on a gross basis unless the Corporation is acting in the capacity of an agent or a broker, in which case revenues are recorded net of purchases. Through its subsidiary NorthPoint, SaskPower acts as a principal in electricity trading transactions taking title to the electricity purchased for resale and assuming the risks and rewards of ownership. Therefore, electricity trading revenues are recorded on a gross basis.

(m) Debt Premium and Issue Costs

Debt premium and issue costs are amortized on a straight-line basis over the term of the respective debt issue and are included in other assets or liabilities as appropriate. *(Notes 10 and 12)*

(n) Employees' Future Benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. The defined benefit pension plan (the Plan) is governed by *The Superannuation (Supplementary Provisions) Act* and *Regulations*, as well as *The Power Corporation Superannuation Act*. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act* and *Regulations* and certain sections of *The Superannuation (Supplementary Provisions) Act* and *Regulations*.

Under the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to operating, maintenance and administration expense.

The defined benefit pension plan, substantially closed to new members since 1977, provides benefits based on the average of the highest five years' salary and years of service. At the discretion of the Lieutenant Governor in Council, pensions may be increased annually up to the rate of increase in the Consumer Price Index. The cost of pension benefits under this Plan is actuarially determined using the projected benefit method prorated on service. It reflects management's best estimates of future investment performance, wage and salary escalation, age at retirement and future pension indexing up to the rate of inflation. Market rates are used to measure the accrued benefit obligation and fair value to measure the pension plan assets. The estimated transitional asset that resulted from the adoption of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461 is being amortized over the average remaining service life of the employees in the Plan. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service life of the employees in the Plan.

The Corporation provides severance plans for all eligible employees, including defined contribution and defined benefit severance plans. Under the defined contribution severance plan, SaskPower's obligations are limited to contributions made for current service. The cost of severance benefits under the defined benefit severance plans is determined using the projected benefit method prorated on service and reflects management's best estimates of future wages, number of eligible employees and average age at retirement. The estimated transitional obligation is being amortized over the average remaining service life of the employees in the defined benefit severance plans.

The Corporation provides a supplementary superannuation plan for certain management employees who elect to forego their entitlement to banked days off. SaskPower's current period expense is limited to yearly notional contributions to the plan based upon the employee's salary and an amount allocated for interest on the employee's plan balance.

The Corporation also provides lifetime superannuation allowances and bridge allowances to employees who choose to retire under various early retirement options. The cost of these benefits is actuarially determined by calculating the present value of all future benefit entitlements. *(Note 19)*

3. Electricity Trading (in millions)

Included in export revenue and fuel and purchased power are revenues and expenses relating to electricity trading activities performed by NorthPoint as follows:

	2005	2004
Electricity trading revenue	$ 46	$ 31
Cost of electricity	37	27
Gross margin from electricity trading	$ 9	$ 4

4. Fuel and Purchased Power (in millions)

	2005	2004
Coal-fired generation	$ 157	$ 176
Natural gas generation	69	67
Hydro generation	14	8
Purchased power	192	182
Imports	59	67
	$ 491	$ 500

Purchased power includes the cost of electricity obtained through power purchase agreements with the Cory Cogeneration Station, Meridian Cogeneration Station and the SunBridge Wind Power Project which are located within Saskatchewan. Imports represent electricity purchased from suppliers that produce power outside Saskatchewan.

5. Depreciation (in millions)

	2005	2004
Depreciation expense	$ 197	$ 197
Accretion expense	2	2
Amortization of contributions in aid of construction	(10)	(10)
	$ 189	$ 189

6. Finance Charges (in millions)

	2005	2004
Interest on long-term debt	$ 184	$ 174
Other interest and charges	1	1
Less: Sinking fund earnings	(13)	(8)
Interest income	(5)	(4)
Capitalized interest	(20)	(3)
Finance charges before foreign exchange gain	147	160
Foreign exchange gain	-	(3)
Finance charges	$ 147	$ 157

7. Taxes (in millions)

	2005	2004
Grants-in-lieu of taxes to 13 cities	$ 14	$ 14
Saskatchewan corporate capital tax	17	12
Other	1	2
	$ 32	$ 28

In addition to the above, SaskPower collected a municipal surcharge, between 5% and 10% of residential electricity revenues, on behalf of 419 Saskatchewan cities, towns and villages from customers and remitted $37 (2004 - $36) to local governments pursuant to Section 36 of *The Power Corporation Act*.

8. Cash and Short-Term Investments (in millions)

	2005	2004
Cash (overdraft)	$ 3	$ (5)
Short-term investments	62	109
	$ 65	$ 104

Short-term investments earned interest at an average rate of 2.65% (2004 - 2.37%) per annum.

	2005				2004			
	Cost	Accumulated Depreciation	Construction in Progress	Net Book Value	Cost	Accumulated Depreciation	Construction in Progress	Net Book Value
Generation	$2,951	$ 1,427	$ 301	$1,825	$2,868	$1,332	$ 73	$1,609
Cogeneration	138	14	-	124	136	9	-	127
Transmission	635	271	22	386	631	266	21	386
Distribution	1,733	706	30	1,057	1,656	658	14	1,012
Other	493	285	16	224	462	264	12	210
	$5,950	$ 2,703	$ 369	$3,616	$5,753	$2,529	$ 120	$3,344

Included in the above amounts are unamortized reconstruction charges and customer contributions of $249 (2004 - $243).

	2005	2004
MRM Cogeneration Station	$ 28	$ 25
Deferred assets	30	34
Defined benefit pension asset *[Note 19(a)]*	29	22
Escrow fund deposits	16	18
Prepaid expense	9	8
Carbon offsets	6	6
Debt issue costs	2	2
	$ 120	$ 115

MRM Cogeneration Station

The Corporation, through its subsidiary SaskPower International, has a 30% ownership interest in the MRM Cogeneration Station. The 170-MW natural gas-fired cogeneration facility is located at the Athabasca Oil Sands Project's Muskeg River Mine, north of Fort McMurray, Alberta. The cogeneration station commenced commercial operations in January 2003.

	2005	2004
Equity investment, beginning of the year	$ 25	$ 25
Equity investment income	3	-
Equity investment, end of year	$ 28	$ 25

Deferred Assets
Deferred assets include payments made in accordance with long-term coal supply agreements. The Corporation is amortizing the deferred assets over the remaining life of the long-term coal supply agreements.

Defined Benefit Pension Asset
This represents the surplus in the defined benefit pension plan based on long-term assumptions. It does not represent cash or investments held by the Corporation outside of the plan. *[Note 19(a)]*

Escrow Fund Deposits
These deposits relate to the development of the 150-MW Centennial Wind Power Facility at Rushlake Creek. As part of the project agreement, a down payment was made in advance and is being held in an escrow fund account.

Prepaid Expense
This includes prepaid amounts for insurance, licenses and natural gas hedging costs. The prepaid amount is amortized on a straight-line basis over the period of this benefit.

Carbon Offsets
These represent payments made to the Province of Saskatchewan for the rights to greenhouse gas (GHG) reduction credits that result from sequestration of GHG through defined forest management activities taken by the province.

Debt Issues Cost
The issue costs are related to the non-recourse long-term debt. The costs are amortized on a straight-line basis over the term of the respective debt.

11. Long-Term Debt (in millions)

SaskPower's gross debt consists of $2,374 of recourse debt and $93 of non-recourse debt. The recourse debt is comprised of advances from the Province of Saskatchewan (Saskatchewan Finance), substantially all of which have annual sinking fund requirements. The non-recourse debt is used to finance the Cory Cogeneration Station. Under the terms of this debt, lenders have recourse limited to the Station's assets.

Long-term Debt Repayment Schedule and Details of Debt

	2005			2004		
	Principal Outstanding			Principal Outstanding		
Years to Maturity	U.S. Dollars	Canadian Dollars	Weighted Average Interest Rate (%)	U.S. Dollars	Canadian Dollars	Weighted Average Interest Rate (%)
Recourse debt						
Advances from the Province of Saskatchewan						
Canadian dollar denominated debt						
1-5 years		$ 452	8.60		$ 261	10.41
6-10 years		97	7.81		-	-
11-15 years		129	9.97		-	-
16-20 years		596	9.17		240	9.60
25-30 years		800	5.98		100	8.75
31-35 years		300	5.00		800	5.98
		2,374	7.45		1,401	7.62
U.S. dollar denominated debt						
1-5 years	$ -	-	-	$ 194	234	7.13
6-10 years	-	-	-	75	90	7.38
16-20 years	-	-	-	300	361	8.79
	-	-	-	569	685	8.04
Gross recourse debt		2,374			2,086	
Non-recourse debt						
1-22 years		93	7.40		95	7.38
Gross non-recourse debt		93			95	
Gross long-term debt		2,467			2,181	
Less sinking fund balances:						
Canadian dollar balances		(170)			(69)	
U.S. dollar balances	-	-		(59)	(71)	
		(170)			(140)	
Long-term debt, net of sinking funds		2,297			2,041	
Less current portion of long-term debt:						
Long-term debt due within one year		(52)			(75)	
Sinking fund installments due within one year		(21)			(18)	
		(73)			(93)	
Long-term debt		$ 2,224			$ 1,948	

Advances from the Province of Saskatchewan (in millions)

Date of Issue	Date of Maturity	Interest Rate (%)	Currency	Outstanding Amount
January 10, 1986 to October 10, 1986	January 10, 2006 to October 10, 2006	9.36 to 10.72	Canadian Dollar	$ 49
April 10, 1987 to December 1, 1989	April 10, 2007 to December 1, 2009	9.12 to 10.31	Canadian Dollar	140
December 20, 1990	December 15, 2020	9.97	Canadian Dollar	129
February 4, 1992	February 4, 2022	9.60	Canadian Dollar	240
March 15, 1993	March 15, 2008	7.70	Canadian Dollar	263
July 20, 1993	July 15, 2013	7.81	Canadian Dollar	97
July 21, 1992	July 15, 2022	8.94	Canadian Dollar	256
May 30, 1995	May 30, 2025	8.75	Canadian Dollar	100
August 8, 2001	September 5, 2031	6.40	Canadian Dollar	200
January 15, 2003	September 5, 2031	6.40	Canadian Dollar	100
May 12, 2003	September 5, 2033	5.80	Canadian Dollar	100
January 14, 2004	September 5, 2033	5.80	Canadian Dollar	200
October 5, 2004	September 5, 2035	5.60	Canadian Dollar	200
February 15, 2005	March 5, 2037	5.00	Canadian Dollar	150
May 6, 2005	March 5, 2037	5.00	Canadian Dollar	150
				$ 2,374

Conversion of U.S. Dollar Denominated Debt

In 2003, SaskPower began a program to eliminate the Corporation's exposure to U.S. dollar denominated debt by December 31, 2005. In 2005, the Corporation completed hedging all U.S. $569 million of debt and subsequently transferred the debt and related hedges to Saskatchewan Finance, a related party, in return for an equivalent amount of Canadian dollar debt. The Corporation also transferred U.S. $67 million of related sinking funds. No gain or loss was recorded on the conversion of the U.S. dollar debt, hedges and sinking funds.

Non-recourse Debt (in millions)

Date of Issue	Date of Maturity	Interest Rate (%)	Currency	Outstanding Amount
April 26, 2001	March 31, 2006 to December 31, 2025	7.59	Canadian Dollar	$ 47
April 26, 2001	March 31, 2006 to June 30, 2026	7.60	Canadian Dollar	41
October 4, 2002	March 31, 2006 to December 31, 2011	B.A.* + margin	Canadian Dollar	5
				$ 93

* A Bankers Acceptance is an instrument that is created by a non-financial firm and accepted and guaranteed by the bank. This rate is based on the average rates from eight Canadian banks with the high and low rates omitted from the average. The margins range from 1.0% to 1.375%.

As at December 31, 2005, scheduled debt retirement requirements for the next five years are as follows (in millions):

	2006	2007	2008	2009	2010
Recourse debt	$ 49	$ 63	$ 337	$ 3	$ -
Non-recourse debt	3	3	3	4	4
	$ 52	$ 66	$ 340	$ 7	$ 4

Sinking Funds (in millions)

Under conditions attached to certain advances from the Province of Saskatchewan, the Corporation is required to pay annually into sinking funds administered by Saskatchewan Finance, amounts at least equal to 1% of certain debt outstanding. As at December 31, 2005, scheduled sinking fund installments for the next five years are as follows:

	2006	2007	2008	2009	2010
Sinking fund annual contribution	$ 21	$ 23	$ 23	$ 20	$ 20

	2005	2004
Asset retirement obligations	$ 31	$ 29
Environmental remediation liabilities	54	54
Cross-currency swaps	-	62
Other benefit plans	34	27
Debt premium	7	10
	$ 126	$ 182

Asset retirement obligations (in millions)

A reconciliation between the opening and closing asset retirement obligation balance is provided below:

	2005	2004
Asset retirement obligations, beginning of year	$ 29	$ 27
Accretion expense	2	2
Asset retirement obligations, end of year	$ 31	$ 29

SaskPower estimates the undiscounted amount of cash flows required to settle the asset retirement obligation is approximately $122, which will be incurred between 2007 and 2042. The majority of these costs will be incurred between 2027 and 2036. Discount rates between 5.25% and 6.04% were used to calculate the carrying value of the asset retirement obligation. No funds have been set aside by the Corporation to settle the asset retirement obligations.

Environmental Remediation Liabilities
Environmental remediation liabilities represent expected environmental expenditures related to present or past activities of the Corporation.

Other Benefit Plans
Other benefit plans include the liability for a defined benefit and defined contribution severance plan, the supplementary superannuation plan, and various early retirement plans.

Debt Premium
The premium is related to the Corporation's recourse long-term debt. The premium is amortized on a straight-line basis over the term of the respective debt.

13. Equity Advances (in millions)

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

14. Financial Risk Management (in millions)

By virtue of its operations, the Corporation is exposed to changes in the price of natural gas, interest rates and the U.S./Canadian dollar exchange rate. The Corporation utilizes a number of financial instruments to manage these exposures. The Corporation mitigates risk associated with these financial instruments through Board-approved policies, limits on use and amount of exposure, internal monitoring, and compliance reporting to senior management and the Board.

Commodity Price Risk
The Corporation is exposed to gas price risk through gas purchased for its gas-fired power plants and through certain gas price-based power purchase agreements. As at December 31, 2005, the Corporation had entered into natural gas contracts to hedge approximately 40% of its estimated natural gas requirements for 2006.

The Corporation is exposed to electricity price risk on its electricity trading activities. Electricity trading risks are managed through limits on the size and duration of transactions and open positions.

Interest Rate Risk
The Corporation is exposed to interest rate risk on the maturity of its long-term debt, however this risk is considered low. As a result, the Corporation had no financial contracts in place to offset interest rate risk as of December 31, 2005.

Foreign Exchange Risk

The Corporation faces exposure to the U.S./Canadian dollar exchange rate primarily through the sale of electricity to customers in the U.S. as well as from the purchase of goods and services that are payable in U.S. dollars. The Corporation may utilize financial instruments to manage this risk. However, the risk is not considered significant.

Credit Risk

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentrations of credit risk relate to groups of customers or counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

SaskPower's credit risk relates to customer accounts receivable and unbilled revenue, short-term investments, and counterparties to financial hedges and commodity transactions. Customer accounts receivable and unbilled revenue is diversified among many residential, farm and commercial customers primarily throughout Saskatchewan. In addition, the Corporation maintains Board-approved credit policies and limits in respect to short-term investments and counterparties.

Financial Instruments

The fair value of the Corporation's financial instruments reflects market estimates of the amount that the Corporation would pay or receive to terminate contracts at the end of the year. Fair value is not a result of market transactions. Changes in assumptions, economic conditions and other factors could cause significant changes in the fair value estimates. The following summarizes the fair value of the Corporation's financial instruments at year-end (in millions):

At December 31, 2005	Notional Principal		Fair Value Asset (Liability)		Repricing or Maturity Date
	U.S. Dollars	Canadian Dollars	U.S. Dollars	Canadian Dollars	
Natural gas contracts	$ -	$ -	$ -	$ (22)	2006-2009
	$ -	$ -	$ -	$ (22)	

At December 31, 2004	Notional Principal		Fair Value Asset (Liability)		Repricing or Maturity Date
	U.S. Dollars	Canadian Dollars	U.S. Dollars	Canadian Dollars	
Cross-currency swaps	$ 465	$ 622	$ (85)	$ (102)	2008-2022
Foreign exchange contracts	3	4	-	-	2005
Natural gas contracts	-	-	-	(4)	2005-2007
	$ 468	$ 626	$ (85)	$ (106)	

The following is a comparison of the balance sheet carrying values and fair values of debt, sinking funds and cross-currency swaps:

At December 31	2005		2004	
	Asset (Liability) Carrying Amount	Fair Value	Asset (Liability) Carrying Amount	Fair Value
Gross recourse debt	$ (2,374)	$ (3,059)	$ (2,086)	$ (2,565)
Non-recourse debt	(93)	(106)	(95)	(106)
Sinking funds	170	174	140	146
Cross-currency swaps	-	-	(62)	(102)

Fair values are determined as follows:

(a) Long-term debt instruments are valued at year-end market prices for the underlying debt issues or, when unavailable, for similar instruments;

(b) Sinking funds and cross-currency swaps are valued at closing year-end market rates; and

(c) Other financial instruments including cash and short-term investments, accounts receivable and unbilled revenue, accounts payable, accrued liabilities and dividends payable approximate fair value due to the short period to maturity.

15. Commitments and Contingencies (in millions)

(a) The Corporation has entered into power purchase agreements expected to cost $4,739 until 2027 and provide approximately 449 MW of generating capacity.

(b) At 2005 prices, the Corporation also has forward commitments of $1,533 (2004 - $1,656) extending until 2024 for future minimum coal deliveries.

(c) The Corporation is forecasting to spend $278 on capital projects in 2006.

(d) The Corporation has guaranteed $11 (2004 - $12) of energy savings to various customers through SaskPower's energy performance contracts. An energy performance contract is a comprehensive facility improvement program designed to enhance the facilities of the customer while permanently reducing utility costs. These guarantees are offset by third party guarantees to SaskPower that ensure the energy savings are realized.

(e) At year-end, SaskPower – through its subsidiary NorthPoint – has committed to 2006 electricity sales of $9 (2005 - $nil) and 2006 electricity purchases of $12 (2005 - $1).

(f) The Corporation has issued letters of credit and promissory notes in the amount of $11 (2004 - $6). This includes $6 in letters of credit related to electricity trading activities and a $5 promissory note provided as acceptable credit support for project lenders in respect of the debt coverage service ratio requirements for the Cory Cogeneration Station.

(g) SaskPower has various legal matters pending, which in the opinion of management will not have a material effect on SaskPower's consolidated financial position or results of operations.

16. Net Change in Non-Cash Working Capital (In millions)

	2005	2004
Accounts receivable and unbilled revenue	$ (12)	$ 8
Materials, fuel and supplies	(21)	(2)
Prepaid and deferred assets	3	-
Accounts payable and accrued liabilities	14	28
Accrued interest	3	6
	$ (13)	$ 40

17. Joint Ventures (In millions)

(a) The Corporation, through its subsidiary SaskPower International, holds a 50% interest in an unincorporated joint venture with ATCO Power Canada Ltd. The joint venture owns and operates a 228-MW natural gas-fired cogeneration plant (the Cory Cogeneration Station) near Saskatoon, Saskatchewan.

(b) The Corporation holds a 50% interest in Cory Cogeneration Funding Corporation (CCFC). CCFC is a special purpose company established by the Corporation and ATCO Power Canada Ltd. (the Owners) to borrow long-term, non-recourse debt to finance the Cory Cogeneration Station. CCFC acts as agents for the Owners by receiving revenues, disbursing costs (including debt service) and distributing proceeds to the Owners.

(c) The Corporation holds a 14% interest in Canadian Power Consultants (CPC) with AMEC E&C Services Limited and Acres International Limited, for the purpose of providing services under a consulting contract with Canadian International Development Agency (CIDA).

(d) The Corporation's interest in joint ventures is summarized below:

	2005	2004
Statement of income		
Revenue	$ 18	$ 17
Operating, maintenance and administration	(5)	(4)
Depreciation	(5)	(5)
Interest	(7)	(7)
Income from joint ventures	$ 1	$ 1
Statement of financial position		
Current assets	$ 3	$ 4
Property, plant and equipment	124	127
Debt issue costs	2	2
Current liabilities	(3)	(4)
Non-recourse long-term debt	(90)	(92)
Other liabilities	(1)	(1)
Investment in joint ventures	$ 35	$ 36
Statement of cash flows		
Operating activities	$ 6	$ 5
Investing activities	(2)	(1)
Financing activities	(5)	(8)
Decrease in cash	$ (1)	$ (4)

Current assets include cash of $1 (2004 - $2) which is only available for use within the joint ventures.

18. Related Party Transactions (in millions)

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end are as follows:

	2005	2004
Accounts receivable and unbilled revenue	$ 10	$ 7
Accounts payable and accrued liabilities	6	5
Accrued interest	54	48
Revenue	105	71
Expense	48	50
Finance charges	175	160

In addition to the above, the Corporation recorded a $7 provision for doubtful accounts related to the sale of electricity to the Meadow Lake Pulp Limited Partnership (MLPLP). MLPLP is related to SaskPower by virtue of Investment Saskatchewan's 50% ownership in the equity of the organization. Investment Saskatchewan and SaskPower are both wholly owned subsidiaries of the Crown Investment Corporation of Saskatchewan. On December 28, 2005, MLPLP was granted protection under the *Companies' Creditors Arrangement Act*. The provision for doubtful accounts represents 100% of the outstanding receivable from MLPLP as at December 28, 2005. In accordance with a Court Order, the Corporation has, subsequent to year-end, received payment for electricity supplied over the period of December 29 - 31, 2005.

19. Employees' Future Benefits (in millions)

Defined Benefit Pension Plan

The Corporation sponsors a defined benefit pension plan (the Plan) that has been substantially closed to employees since 1977. The measurement date of the latest actuarial valuation used to determine the Plan assets and obligations was September 30, 2005. The effective date of the most recent actuarial valuation for funding purposes was December 31, 2004. Under current Canada Revenue Agency guidelines, an actuarial valuation for funding purposes is to be completed at a minimum, every three years. However, the Corporation has committed to request an actuarial valuation for funding purposes in 2006 with an effective date of December 31, 2005.

The defined benefit pension plan is solely the obligation of the Corporation. The Corporation is not obligated to fund the Plan but is obligated to pay benefits under the terms of the Plan as they come due.

(a) Status of the Plan

The actuarial valuation measured at September 30, 2005, showed that the Plan had an actuarial deficit of $6 (2004 - $35). The improvement in the funded status of the Plan was primarily due to the actual returns earned on the Plan's assets. The calculation of the pension plan deficit is as follows:

	2005	2004
Plan assets		
Fair value, beginning of year	$ 681	$ 648
Actual return on plan assets	112	71
Employee funding contributions	2	2
Employer funding contributions	7	-
Benefits paid	(40)	(40)
Fair value, end of year	762	681
Accrued benefit obligation		
Balance, beginning of year	716	701
Current service cost	8	7
Interest cost	42	43
Benefits paid	(40)	(40)
Actuarial loss	42	5
Balance, end of year	768	716
Funded status - Plan deficit	$ (6)	$ (35)

For accounting purposes, an asset of $29 (2004 - $22) has been recorded in other assets on SaskPower's statement of financial position at December 31, 2005. The difference between the value reported as the Plan deficit and the value recorded on SaskPower's statement of financial position is due to the CICA requirement to base the valuation of the Plan for accounting purposes on long-term actuarial assumptions rather than on actual experience.

Below is a reconciliation of the Plan deficit and the value of the Plan recorded on SaskPower's statement of financial position.

	2005	2004
Plan deficit	$ (6)	$ (35)
Add unamortized net actuarial loss not yet recorded	39	64
Less unamortized transitional asset resulting from the introduction of Section 3461*	(9)	(14)
Add SaskPower's contributions**	5	7
Defined benefit pension asset recorded in other assets	$ 29	$ 22

* Canadian Institute of Chartered Accountants Handbook Section 3461 - "employee future benefits."
** SaskPower's contributions made on October 27, 2005.

The most significant reconciling item is the unamortized net actuarial loss. This loss is made up of the accumulated difference between the actual returns and obligations of the Plan and the expected returns and obligations of the Plan based upon the long-term actuarial assumptions.

(b) Benefit Expense

In 2005, using the beginning of the year long-term assumptions, the Corporation recorded a non-cash pension credit of $2 (2004 - $3 expense). This amount was recorded in the Corporation's operating, maintenance and administration expense. The following is a summary of the calculation of the pension (credit) expense.

	2005	2004
Cost arising from events during the year		
SaskPower's current service cost	$ 6	$ 5
Interest on accrued benefit obligation	42	43
Less: Actual return on plan assets	(112)	(71)
Actuarial losses on accrued benefit obligation	42	5
Future benefit (credits) cost before adjustments	(22)	(18)
Adjustments to recognize the long-term nature of cost:		
Difference between actual and expected return on plan assets	67	27
Amortization of transitional asset	(5)	(5)
Difference between amortization of net actuarial (gains)/losses and actual actuarial (gains)/losses on accrued benefit obligations	(42)	(1)
Pension expense recorded in operating, maintenance and administration	$ (2)	$ 3

(c) Assumptions

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation at September 30 are:

	2005	2004
Discount rate, beginning of year	6.00%	6.25%
Discount rate, end of year	5.25%	6.00%
Expected long-term rate of return on plan assets, beginning of year	6.75%	7.00%
Expected long-term rate of return on plan assets, end of year	6.50%	6.75%
Long-term rate of compensation increases	3.50%	4.00%
Remaining service life (years)	4.45	5.13
Long-term inflation rate	2.50%	3.00%
Assumptions for ad hoc increases (percentage of CPI)	50.00%	50.00%

The actuarial assumptions are based on management's expectations, independent actuarial advice and guidance provided by the CICA. Two of the most significant assumptions are the discount rate and expected long-term rate of return on plan assets. The discount rate has been lowered in 2005 to better reflect the spot yield for high-grade, long-term Canadian corporate bonds. The expected long-term rate of return on Plan assets is based upon the asset mix of the Plan and expected returns for each asset class. The decrease from the previous valuation is attributed to lower than expected long-term returns in all asset classes.

(d) Benefit Plan Asset Allocation

	2005	2004
Equity securities	54.0%	52.3%
Debt securities	34.5%	35.5%
Cash	11.5%	12.2%
	100.0%	100.0%

(e) Benefit Payments

The benefit payments expected to be made to beneficiaries over the next five years are the following:

	2006	2007	2008	2009	2010
Expected benefit payments	$ 44	$ 46	$ 47	$ 49	$ 52

Defined Contribution Pension Plan

Under the defined contribution pension plan, the Corporation's obligations are limited to the contributions for current services. These contributions are charged to income when made. The net expense for the defined contribution pension plan is as follows:

	2005	2004
Defined contribution pension plan	$ 8	$ 7

Other Benefit Plans

Other benefit plans include a defined benefit and a defined contribution severance plan, the supplementary superannuation plan and a voluntary early retirement plan.

	2005	2004
Present value of accrued benefits	$ (51)	$ (46)
Accrued benefit liability	(34)	(27)
Benefits paid	(7)	(5)
Expense	14	9

In 2005, the Corporation established a new defined contribution severance plan for members of the Communications, Energy and Paperworkers (CEP) Local 649 that effectively replaced a defined benefit severance plan on a go forward basis. In accordance with CICA Handbook Section 3461, the introduction of the defined contribution plan was considered to be a curtailment of the existing defined benefit plan as it eliminated the ability of members to continue to earn defined benefits for their future services. As a result, the Corporation expensed $4 in 2005 for the remaining unamortized transitional obligation related to the defined benefit severance plan.

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations at September 30 are:

	2005	2004
Discount rate	4.25%	6.00%
Long-term rate of compensation increases	3.50%	4.00%
Remaining service life (years)	11.15	11.21

30. Comparative Figures

Certain amounts for the prior year have been reclassified to conform with current year financial statement presentation.

five-year operating summary

	2005	2004	2003	2002	2001
Number of Saskatchewan electric customers:					
Residential	311,736	308,659	305,685	303,317	301,165
Farm	65,110	66,099	66,868	67,317	67,551
Commercial	53,008	52,911	52,656	52,500	52,358
Oilfields	11,757	11,409	11,180	11,026	10,915
Power customers	79	85	87	72	70
Reseller	2	2	2	2	2
	441,692	439,165	436,478	434,234	432,061
Total electric sales (GWh)					
Residential	2,514	2,484	2,509	2,457	2,386
Farm	1,337	1,350	1,442	1,367	1,386
Commercial	3,200	3,132	3,151	3,461	3,457
Oilfields	2,264	2,165	2,082	1,728	1,640
Power customers	6,552	6,502	6,278	5,722	5,839
Reseller	1,266	1,261	1,287	1,263	1,246
Saskatchewan electric sales	17,133	16,894	16,749	15,998	15,954
Exports	1,670	1,538	1,761	777	945
Total electric sales	18,803	18,432	18,510	16,775	16,899
Net electrical energy supplied (GWh)					
Coal	11,570	12,302	11,730	11,670	11,711
Gas	734	876	1,066	989	798
Hydro	4,573	2,746	3,416	2,836	2,391
Wind	34	35	20	4	-
Imports and other	1,126	1,531	1,142	1,431	2,127
Purchased power	2,558	2,892	2,952	1,769	1,691
Gross electrical energy supplied	20,595	20,382	20,326	18,699	18,718
Losses and internal use	(1,792)	(1,950)	(1,816)	(1,924)	(1,819)
Net electrical energy supplied	18,803	18,432	18,510	16,775	16,899
Generating capacity (net MW)					
Coal	1,653	1,653	1,653	1,653	1,653
Gas	539	539	539	539	374
Hydro	853	853	853	853	853
Wind	11	11	11	6	-
Purchased Power	449	449	449	221	221
	3,505	3,505	3,505	3,272	3,101
Number of permanent full-time employees	2,425	2,397	2,376	2,350	2,286
Transmission lines (km)	12,159	12,149	12,104	12,026	12,290
Distribution lines (km)	142,110	141,408	140,733	140,084	139,460
	154,269	153,557	152,837	152,110	151,750
Average annual usage per residential customer (kWh)	8,065	8,048	8,208	8,100	7,923
Annual peak load (net MW)	2,946	2,954	2,805	2,800	2,691
Minimum load (net MW)	1,482	1,466	1,501	1,413	1,456
Summer peak load (net MW)	2,639	2,591	2,666	2,569	2,515

five-year financial summary

(in millions)

	2005	2004	2003	2002	2001
Net income:					
Revenue					
Saskatchewan	**$ 1,181**	$ 1,132	$ 1,104	$ 1,058	$ 994
Export	**114**	97	113	43	109
Other	**31**	28	27	23	23
Total revenue	**1,326**	1,257	1,244	1,124	1,126
Expense					
Fuel and purchased power	**491**	500	502	366	468
Operating, maintenance and administration	**336**	317	301	286	254
Depreciation	**189**	189	186	167	158
Finance charges[1]	**147**	157	39	141	181
Taxes	**32**	28	29	27	26
Total expense	**1,195**	1,191	1,057	987	1,087
Net income	**$ 131**	$ 66	$ 187	$ 137	$ 39
Property, plant and equipment:					
Property, plant and equipment	**$ 5,950**	$ 5,753	$5,555	$ 5,171	$ 4,849
Less: Accumulated depreciation	**2,703**	2,529	2,356	2,196	2,043
	3,247	3,224	3,199	2,975	2,806
Construction in progress	**369**	120	61	215	268
	$ 3,616	$ 3,344	$3,260	$ 3,190	$ 3,074
Capital expenditures	**$ 473**	$ 301	$ 267	$ 305	$ 364
Debt at December 31:					
Recourse debt	**$ 2,374**	$ 2,086	$1,794	$ 1,910	$1,918
Non-recourse debt	**93**	95	97	97	91
Gross long-term debt	**2,467**	2,181	1,891	2,007	2,009
Less: Sinking fund balances	**(170)**	(140)	(120)	(121)	(98)
Long-term debt, net of sinking funds	**2,297**	2,041	1,771	1,886	1,911
Long-term debt due within one year	**(52)**	(75)	(60)	(153)	-
Sinking funds installments due within one year	**(21)**	(18)	(15)	(15)	(15)
Long-term debt	**$ 2,224**	$ 1,948	$1,696	$ 1,718	$1,896
Total equity	**$ 1,436**	$ 1,390	$1,383	$ 1,365	$1,310
Cash flows:					
Cash provided by operating activities	**$ 297**	$ 289	$ 200	$ 262	$ 245
Cash used in investing activities	**(457)**	(289)	(255)	(290)	(361)
Cash provided by (used by) financing activities	**121**	100	(34)	(82)	251
(Decrease) increase in cash position	**$ (39)**	$ 100	$ (89)	$ (110)	$ 135

1. Finance charges are net of foreign exchange gains or losses.

corporate governance

The process and structure used to direct and manage the business affairs of the Corporation, with the objective of enhancing shareholder value, are commonly referred to as corporate governance. In the case of SaskPower, shareholder value extends beyond the traditional definition that only concerns itself with the strict management of corporate and business cash flows in order to optimize financial risk and return.

SaskPower has one owner – the Crown Investments Corporation (CIC) of Saskatchewan. However it has multiple stakeholders, including its residential, agricultural, business and industrial customers. The shareholder and stakeholders are not only concerned with present and future financial returns, but also present and future capacity to meet a set of unique service objectives – specifically, the provision of a safe, reliable, cost-effective and environmentally responsible supply of electricity.

The SaskPower Board of Directors is committed to striving to meet best practice in the area of corporate decision making. This includes the cultivation of a governance model that promotes effective risk management, sustainability, corporate responsibility, financial stability, transparency and trust within an overall strategic vision. To that end, SaskPower is continuing an extensive review of corporate governance and modifying its structure and processes in order to enhance the effectiveness of the Board of Directors and Executive.

In June 2005, the Canadian Securities Administrators (CSA) Governance Guidelines replaced the Toronto Stock Exchange (TSX) Corporate Governance Guidelines as the standard for best practice in Canada. Concurrently, the SaskPower Board directed a review of the Corporation's governance practices in relation to the new CSA guidelines. The review was completed by Patrick O'Callaghan & Associates and included interviews with current Board Members, corporate Executive and a cross functional management team charged with assisting in the updating of the Governance Handbook. Materials reviewed by Patrick O'Callaghan & Associates include the Governance Handbook, the Board of Directors Handbook, committee and Board Terms of Reference, and a variety of other relevant governance documents.

The O'Callaghan Governance Review Report was subsequently delivered to the Governance Committee of the Board of Directors. The report outlines areas which SaskPower will address in order to meet the new CSA compliance standards. This will require an assessment of any necessary adjustments to allow for the presence of two internal directors who are labour representatives – the President, Communications, Energy and Paperworkers (CEP) Local 649 and the President, International Brotherhood of Electrical Workers (IBEW) Local 2067. It is anticipated that the implementation of compliance adjustments will be addressed in the coming year. The objective of these collective efforts is to enhance and strengthen SaskPower's governance practices, last updated in 2003.

Authority

SaskPower is governed by *The Power Corporation Act* and is subject to the provisions of *The Crown Corporations Act, 1993*, which gives the Crown Investments Corporation (CIC) of Saskatchewan, the holding company for Saskatchewan's commercial Crown corporations, broad authority to set the direction of the Corporation. Where required by legislation or policy directive, SaskPower submits performance management and investment decisions for review and approval by CIC and the provincial cabinet. Through its Chair, who is an outside director, the SaskPower Board of Directors is accountable to the Minister Responsible for SaskPower. The Minister functions as a link between the Corporation and cabinet, as well as the provincial legislature.

Role of Board of Directors (10 Meetings)

SaskPower's Board of Directors is responsible for setting direction, monitoring and reporting achievement, and analyzing, evaluating and taking corrective action for the Corporation. The Board is responsible for the stewardship of the Corporation in general terms. In meeting this responsibility, the Board works with management to develop and approve the Corporation's strategic plan, operating goals, annual budget and business plans. It participates in identifying business risk and overseeing the implementation of appropriate systems to achieve a balance between risks incurred and potential returns. During 2005, highlights include the review of numerous operational, financial, environmental, strategic planning, human resource and governance items.

Board Composition

SaskPower's Board of Directors is appointed by the Lieutenant Governor in Council pursuant to *The Power Corporation Act*. The Board consists of nine external Directors and two Directors appointed as representatives of the IBEW and CEP unions and not related to the management of the Corporation. In 2005, Marty Klyne resigned from the Board, while Edmund Bellegarde was appointed.

Committees

The Board has four standing committees to assist in discharging specific areas of Board responsibility:

- Audit and Finance Committee;
- Governance Committee;
- Environment, Occupational Health and Safety Committee; and
- Human Resources/Compensation Committee.

The full Terms of Reference of each of the committees, as well as the Board of Directors, can be found on the SaskPower website (saskpower.com).

Audit and Finance Committee (10 Meetings)

Chair: Lyn Kristoff Members: Cheryl Bauer Hyde, Edmund Bellegarde, Al Macatavish and Mel Watson

The Audit and Finance Committee's terms of reference mandate the Committee to assist the Board in meeting its responsibilities with respect to financial reporting, internal controls and accountability. The Committee oversees the risk management reporting of the Corporation and directly interacts with the internal and external auditors. The committee ensures that the Board is provided with financial plans, proposals and information that are consistent with the Corporation's overall strategic plan and public policy objectives. During the fiscal year, the Committee completed numerous tasks, including working with management to oversee development of the 150-megawatt Centennial Wind Power Facility. It also reviewed annual and interim financial statements, regular risk management reporting packages, Corporate Balanced Scorecard reporting, SaskPower's insurance program, the 2006 Business Plan, the Corporation's 2005 Rate Application, as well as the Deloitte & Touche and Provincial Auditor 2004 Auditor Summary.

Governance Committee (Five Meetings)

Chair: Deb Schmidt Members: Cheryl Bauer Hyde, Neil Collins and Lyn Kristoff

The Governance Committee is responsible for the development, review and effectiveness of SaskPower's corporate governance practices. Its duties include monitoring and evaluating Board and individual Director performance and the effectiveness of the Board committee structure. It is also responsible for conducting Board skills and needs assessments within the process of identifying potential future members. In 2005, its activities included a review of the new CSA Governance Guidelines, SaskPower's Code of Conduct Policy, as well as the Terms of Reference for the Board of Directors, individual Directors and all standing committees.

Environment, Occupational Health and Safety Committee (Four Meetings)

Chair: Al Macatavish Members: Larry Braun, Sarah Gauthier and Michael Mehta

The Environment, Occupational Health and Safety Committee is charged with ensuring that the Corporation proactively addresses safety, health and environmental issues and is in compliance with regulatory and statutory requirements. During the year, highlights include approving SaskPower's Environment Policy, in addition to reviewing the 2004 Transmission and Distribution Environmental Management System external audit; the Corporation's compliance with current environmental legislative, regulatory and corporate standards; and the potential implications of the Kyoto Protocol. Progress with respect to the development of SaskPower's new Corporate Safety Department was also monitored.

Human Resources/Compensation Committee (Six Meetings)

Chair: Mel Watson Members: Edmund Bellegarde, Sarah Gauthier and Deb Schmidt

The Human Resources/Compensation Committee is charged with overseeing SaskPower's human resource strategies, programs and practices. Accomplishments during 2005 include a review of the Canadian Electricity Association Human Resource Sector Study, a leadership competency profile for the President and Chief Executive Officer, the Corporation's Representative Workforce Strategy Framework, as well as the development of a criminal records check process at SaskPower.

Governance Practices

Since 2000, SaskPower has worked to benchmark its governance practices with industry best practice, and to position them to be consistent with guidelines set forth by the Board of Governors of the Toronto Stock Exchange (TSX). In 2005, the CSA Governance Guidelines replaced the TSX Corporate Governance Guidelines. The following scorecard sets out SaskPower governance practice benchmarked against the CSA Governance Guidelines.

National Policy 58-201 Guideline	Is SaskPower Already In Compliance?	
COMPOSITION OF THE BOARD		
1. The Board should have a majority of independent Directors.	***YES***	The Board is comprised of 11 Directors, 9 of which are external and independent. The two internal Directors are the President, Communications, Energy and Paperworkers (CEP) Local 649 and the President, International Brotherhood of Electrical Workers (IBEW) Local 2067. In future, the independence of Directors will be addressed in the Board Terms of Reference.
2. The Chair of the Board should be an independent Director. Where this is not appropriate, an independent Director should be appointed to act as "lead Director." However, either an independent Chair or an independent lead Director should act as the effective leader of the Board and ensure that the Board 's agenda will enable it to successfully carry out its duties.	***YES***	The Chair of the Board is an independent Director. In future, the independence of Directors will be addressed in the Board Terms of Reference.
MEETINGS OF INDEPENDENT DIRECTORS		
3. The independent Directors should hold regularly scheduled meetings at which non-independent Directors and members of management are not in attendance.	***ONGOING***	The Board has the right to determine which non-Board members shall be present at any part of Board meetings. The two non-independent Directors are present at regularly-scheduled meetings but are excused from discussions where there may be a conflict of interest. In future, the independence of Directors will be addressed in the Board Terms of Reference.
BOARD MANDATE		
4. The Board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for:	***YES***	The Board has a written mandate in its Terms of Reference, where it explicitly acknowledges that the Board of Directors functions as a steward of the Corporation.
(a) to the extent feasible, satisfying itself as to the integrity of the Chief Executive Officer (the CEO) and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the organization;	***YES***	The Terms of Reference for a director state Directors shall require "of themselves and Corporate employees high standards of ethical behaviour..." In future, the Terms of Reference will explicitly outline the requirement for the Board to take responsibility for satisfying itself as to the integrity of the CEO and other officers, as well as ensuring a culture of integrity is present throughout the Corporation.
(b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;	***YES***	The Board acknowledges a duty to "provide leadership" in setting strategic direction and to approve the strategic plan. In 2005, working with management, the Board continued to redefine its planning process.

National Policy 58-201 Guideline	Is SaskPower Already in Compliance?	
(c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks;	*YES*	The Board states identification of risk as a duty in which it participates. It oversees implementation of risk-management systems.
(d) succession planning (including appointing, training and monitoring senior management);	*YES*	Covered in the Board Terms of Reference.
(e) adopting a communication policy for the issuer;	*YES*	Covered in the Board Terms of Reference.
(f) the issuer's internal control and management information systems; and	*YES*	Covered in the Board Terms of Reference.
(g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer.[1]	*YES*	The Board has a Governance Committee, which is responsible for and reports to the Board on corporate governance processes. In future, this will be addressed in the Board Terms of Reference.
The written mandate of the Board should also set out:		
(i) measures for receiving feedback from stakeholders (e.g., the Board may wish to establish a process to permit stakeholders to directly contact the independent Directors), and	*YES*	The Board assumes responsibility for adopting policies and processes to enable effective communication with the shareholder, stakeholders and the public. In future, it will be specified that this includes measures for receiving feedback from stakeholders.
(ii) expectations and responsibilities of Directors, including basic duties and responsibilities with respect to attendance at Board meetings and advance review of meeting materials. In developing an effective communication policy for the issuer, issuers should refer to the guidance set out in National Policy 51-201 Disclosure Standards.	*YES*	Expectations and responsibilities of Directors, including participation in and preparation for meetings, are outlined in the Terms of Reference for a Director.
POSITION DESCRIPTIONS		
5. The Board should develop clear position descriptions for the Chair of the Board and the Chair of each Board Committee. In addition, the Board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The Board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.	*YES*	The Board Terms of Reference outlines management responsibilities. In future, it will include corporate goals or objectives for the CEO. The Terms of Reference for the Human Resources/Compensation Committee state that the CEO's review is based on agreed objectives that are updated each year – they will be modified to outline that the Committee is responsible for reviewing and approving those objectives. Specific position descriptions for committee Chairs will be addressed in the coming year.

[1] Issuers may consider appointing a corporate governance committee to consider these issues. A corporate governance committee should have a majority of independent Directors, with the remaining members being "non-management" Directors.

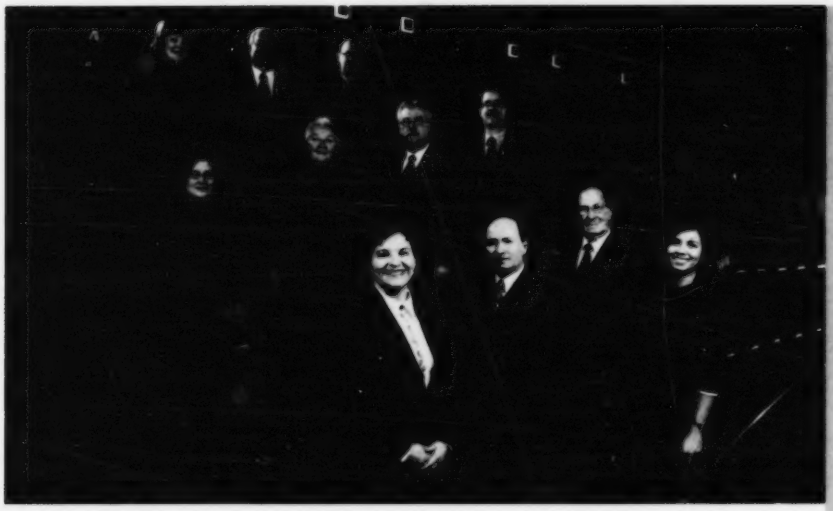
National Policy 58-201 Guideline	Is SaskPower Already In Compliance?	
ORIENTATION AND CONTINUING EDUCATION		
6. The Board should ensure that all new Directors receive a comprehensive orientation. All new Directors should fully understand the role of the Board and its committees, as well as the contribution individual Directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its Directors). All new Directors should also understand the nature and operation of the issuer's business.	***YES***	The Governance Committee Terms of Reference state that it shall recommend to the Board a Director orientation and continuing education policy. Enhancements to the existing process have been identified and will be addressed in the coming year.
7. The Board should provide continuing education opportunities for all Directors, so that individuals may maintain or enhance their skills and abilities as Directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.	***YES***	Directors participate in development sessions sponsored by CIC. These are designed to ensure Directors stay up to date with best practice developments in corporate governance. In addition, the Corporation provides opportunities to participate in site visits and tours, while specifically providing orientation to the electrical utility business.
CODE OF BUSINESS CONDUCT AND ETHICS		
8. The Board should adopt a written code of business conduct and ethics (a code). The code should be applicable to Directors, officers and employees of the issuer. The Code should constitute written standards that are reasonably designed to promote integrity and to deter wrongdoing. In particular, it should address the following issues:	***YES***	SaskPower has a written Code of Conduct Policy applicable to Directors, officers and employees. It is intended to provide both general and specific guidelines to protect and guide SaskPower personnel faced with ethical, moral and legal dilemmas during the course of their employment or in carrying out their duties. The Board has the responsibility to annually review and, as required, revise the Code. This responsibility is stated in the Code itself and will appear in the Board Terms of Reference in 2006.
(a) conflicts of interest, including transactions and agreements in respect of which a Director or Executive Officer has a material interest;	***YES***	The Code addresses Conflict of Interest. In future, it will specifically include transactions and agreements in respect of which a Director or Executive Officer has a material interest.
(b) protection and proper use of assets and opportunities;	***YES***	Property and inventions are covered in the Code. In future, it will reference opportunities.
(c) confidentiality of corporate information;	***YES***	Confidentiality is covered in the Code, including SaskPower information that contains third party information and personal information about personnel and customers.
(d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees;	***YES***	Fair dealing is covered in the General Conduct Principles section as follows: "SaskPower expects its Personnel to conduct themselves ...in a manner that is and is perceived to be fair and even handed. The public is entitled to receive...fair and equitable treatment, whether in the provision of services or acquisition of property."
(e) compliance with laws, rules and regulations; and	***ONGOING***	In future, compliance with laws, rules and regulations will be covered in the Code.
(f) reporting of any illegal or unethical behaviour.	***YES***	The Code states that Personnel who have knowledge of an actual, or potential, breach of the Code should report it. In future, it will reference "illegal" behaviour.

National Policy 58-201 Guideline	Is SaskPower Already In Compliance?	
9. The Board should be responsible for monitoring compliance with the Code. Any waivers from the Code that are granted for the benefit of the issuer's Directors or Executive Officers should be granted by the Board (or a Board committee) only. Although issuers must exercise their own judgement in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a Director or Executive Officer which constitutes a material departure from the Code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-102 requires every material change report to include a full description of the material change. Where a material departure from the Code constitutes a material change to the issuer, we expect that the material change report will disclose, among other things: • the date of the departure(s), • the party(ies) involved in the departure(s), • the reason why the Board has or has not sanctioned the departure(s), and • any measures the Board has taken to address or remedy the departure(s).	***YES***	The Governance Committee's Terms of Reference state that it shall monitor and report annually to the Board concerning compliance with the "Director's Code of Conduct" and to "review and report to the Board on conflict of interest matters involving Directors." In future, responsibility for monitoring the Code with respect to officers and employees will be included. Currently, the Code states that the Vice-president, Human Resources, is responsible for investigating employee breaches of the Code. It is expected the Board will update the Code at its January 2006 meeting.
NOMINATION OF DIRECTORS		
10. The Board should appoint a nominating committee composed entirely of independent Directors.	***ONGOING***	The Governance Committee takes on responsibility for Director nomination. A determination on committee composition will be made in the coming year.
11. The nominating committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members and subcommittees), and manner of reporting to the Board. In addition, the nominating committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate Directors, the selection and nomination of those Directors need not involve the approval of an independent nominating committee.	***YES***	The Board has a written charter in its Terms of Reference which includes all items referred to in the CSA Guideline, except authority to delegate to individual members and subcommittees and authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. The Board Terms of Reference do state that any committee can obtain the advice and counsel of external advisors. However, it states the Board shall engage the advisors.

National Policy 58-201 Guideline	Is SaskPower Already In Compliance?	
12. Prior to nominating or appointing individuals as Directors, the Board should adopt a process involving the following steps: (a) Consider what competencies and skills the Board, as a whole, should possess. In doing so, the Board should recognize that the particular competencies and skills required for one issuer may not be the same as those required for another. (b) Assess what competencies and skills each existing Director possesses. It is unlikely that any one Director will have all the competencies and skills required by the Board. Instead, the Board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each Director, as these may ultimately determine the boardroom dynamic.	***ONGOING***	In future, both the Board and Governance Committee Terms of Reference will outline the steps followed in the Director nomination process. A skills and competency evaluation has been a part of the recruitment process in filling past vacancies.
The Board should also consider the appropriate size of the Board, with a view to facilitating effective decision-making. In carrying out each of these functions, the Board should consider the advice and input of the nominating committee.	***YES***	The Terms of Reference for the Governance Committee state that it shall recommend the size of the Board.
13. The nominating committee should be responsible for identifying individuals qualified to become new Board Members and recommending to the Board the new Director nominees for the next annual meeting of shareholders.	***YES***	The Terms of Reference for the Governance Committee give it the responsibility to, "Review and recommend to the Board qualified potential candidates for appointment to the Board, and in the case of the Corporation, following Board agreement, forward such recommendations to the Crown Investments Corporation Board." Board appointments are effected through an Order-In-Council.
14. In making its recommendations, the nominating committee should consider: (a) the competencies and skills that the Board considers to be necessary for the Board, as a whole, to possess; (b) the competencies and skills that the Board considers each existing Director to possess; and	***YES***	The Terms of Reference for the Governance Committee require the Committee to, "Recommend to the Board the size, composition, required capabilities and compensation of the Board of Directors to meet the needs of the Corporation."

National Policy 58-201 Guideline	Is SaskPower Already In Compliance?	
(c) the competencies and skills each new nominee will bring to the boardroom. The nominating committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a Board Member.	***ONGOING***	In future, both the Board and Governance Committee Terms of Reference will outline the steps followed in the Director nomination process.
COMPENSATION		
15. The Board should appoint a compensation committee composed entirely of independent Directors.	***ONGOING***	The Board has a Human Resources/Compensation Committee, however, its Terms of Reference do not specify that all members shall be independent.
16. The compensation committee should have a written charter that establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members or subcommittees), and the manner of reporting to the Board. In addition, the compensation committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.	***ONGOING***	The Human Resources/Compensation Committee has a written charter in its Terms of Reference, which includes all items referred to in the CSA Guideline. In the coming year, consideration will be given to outlining the authority to delegate to individual members and subcommittees, as well as the authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. The Board Terms of Reference state that any committee can obtain the advice and counsel of external advisors. However, it states the Board shall engage the advisors.
17. The compensation committee should be responsible for: (a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the Board with respect to) the CEO's compensation level based on this evaluation;	***YES***	The Committee's Terms of Reference state that the CEO's review is based upon agreed upon objectives, updated each year; in future, they will state that the Committee is responsible for reviewing and approving those objectives. While CEO compensation is not addressed directly, the Committee has the responsibility to review and monitor "management" compensation and benefit programs. As SaskPower is not a publicly-traded company, CEO compensation is set by the shareholder, CIC.
(b) making recommendations to the Board with respect to non-CEO officer and Director compensation, incentive-compensation plans and equity-based plans; and	***YES***	The Committee has the responsibility to annually review and monitor management compensation and benefit programs and make recommendations to the Board. The Governance Committee is also responsible for recommending Director compensation to the Board. CIC, as shareholder, sets Director renumeration.
(c) reviewing executive compensation disclosure before the issuer publicly discloses this information.	***ONGOING***	In future, this item will be included in the Committee's Terms of Reference. Executive and employee compensation is annually released to the Legislative Assembly committee through payee disclosure. In addition, the President and CEO – and direct reports – are required to file their employment contracts with the Clerk of Executive Council pursuant to *The Crown Employment Contracts Act*.

National Policy 58-201 Guideline	Is SaskPower Already In Compliance?	
REGULAR BOARD ASSESSMENTS		
18. The Board, its committees and each individual Director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider:	***YES***	The Governance Committee is responsible for annually evaluating and reporting to the Board the overall performance of the Boards and committees.
(a) in the case of the Board or a Board committee, its mandate or charter, and	***YES***	Board and Board committee performance evaluations are conducted on a 2-year cycle, as per CIC guidelines.
(b) in the case of an individual Director, the applicable position description(s), as well as the competencies and skills each individual director is expected to bring to the Board.	***YES***	Peer evaluations are completed annually.



At the Saskatchewan Science Centre, left to right: (back row) Deb Schmidt; Al Macatavish; Dr. Michael Mehta; (middle) Cheryl Bauer Hyde; Lyn Kristoff; Larry Braun; Neil Henneberg; (front) Patricia Quaroni; Neil Collins; Mel Watson; and Sarah Gauthier. Not pictured: Edmund Bellegarde.

board of directors

(at December 31, 2005)

Patricia A.G. Quaroni, LLB
Chair of the Board
Lawyer and Partner
Olive Waller Zinkhan & Waller
Regina, Saskatchewan

Cheryl Bauer Hyde, FCUIC, CFP
Certified Financial Planner
Regina, Saskatchewan
Committees: Audit and Finance; Governance

Edmund Bellegarde
President and CEO
Saskatchewan Indian Gaming Authority Inc.
Saskatoon, Saskatchewan
Committees: Audit and Finance; Human Resources/Compensation

Larry Braun
President
CEP Local 649
Saskatoon, Saskatchewan
Committees:
Environment, Occupational Health & Safety

Neil Collins
President
IBEW Local 2067
Estevan, Saskatchewan
Committees: Governance; SaskPower Shand Greenhouse Board Representative

Sarah Gauthier, B.Sc., B.E.
Environmental Scientist
Canada North Environmental Services
Saskatoon, Saskatchewan
Committees: Environment, Occupational Health & Safety; Human Resources/Compensation

Neil Henneberg
Corporate Secretary
Crown Investments Corporation of Saskatchewan
Regina, Saskatchewan

Lyn Kristoff, FCA
Retired Vice-president of Finance and Corporate Controller
Saskatchewan Wheat Pool
Regina, Saskatchewan
Committees: Audit and Finance (Chair); Governance

Al Macatavish
Retired Vice-president
Manitoba Hydro
Winnipeg, Manitoba
Committees: Audit and Finance; Environment, Occupational Health & Safety (Chair)

Dr. Michael D. Mehta, BA, M.E.S., PhD
Professor of Sociology
University of Saskatchewan
Saskatoon, Saskatchewan
Committees: Environment, Occupational Health & Safety

Deb Schmidt
Independent Business Person
Yorkton, Saskatchewan
Committees: Governance (Chair); Human Resources/Compensation

Mel Watson
Owner
Watson Tractor
Regina, Saskatchewan
Committees: Audit and Finance; Human Resources/Compensation (Chair)

executive team

(at December 31, 2005)

Pat Youzwa
President and
Chief Executive Officer
SaskPower

Myron Gulka-Tiechko
Vice-president
General Counsel and
Assistant Secretary

David Hughes
President and
Chief Executive Officer
SaskPower International

Bill Jones
Vice-president and
Chief Financial Officer
Corporate and Financial Services

Judy May
Vice-president
Customer Services

Garner Mitchell
Vice-president
Power Production

Rick A. Patrick
Vice-president
Planning, Environment and Regulatory Affairs

Eric Rankin
Vice-president and
Chief Information Officer
Corporate Information and Technology and
Acting Vice-president
Human Resources

Kelly Staudt
Vice-president
Transmission and Distribution

Gary Wilkinson
President and
Chief Executive Officer
NorthPoint Energy Solutions

*Profiles of Board and Executive members can be found at saskpower.com

glossary

Biogas
Methane created from the decomposition of organic matter such as manure or landfill waste; can be used to power engines to generate heat and electricity.

Biomass
Energy resources derived from organic matter. These include wood, agricultural waste and other living-cell material that can be burned to produce heat energy.

Capacity
The greatest load that can be supplied by a generating unit, power station or an entire provincial grid system.

Carbon Dioxide (CO_2)
One of the greenhouse gases believed to be a cause of global warming. Carbon dioxide is produced in fossil fuel-based electricity generation.

Clean Coal Technology
Technology that nearly eliminates emissions – including carbon dioxide – from coal-fired power plants.

Climate Change
Climate change refers to any change in climate over time, whether due to natural variability or as a result of human activity.

Cogeneration
The simultaneous generation of electricity and useful heat or steam. The heat could be put to use in an industrial process or to heat a facility or community. The electricity could be used by the owner or sold to SaskPower.

Demand
The rate at which electric energy is delivered at a given instant or averaged over a period of time. It is measured in kilowatts, megawatts, etc.

Distributed Generation (DG)
The process of producing electrical power on a small scale at a consumer's site.

Distribution
Process of moving electric energy at lower voltages from major substations to customers.

Environmental Management System (EMS)
Part of an overall management system which includes organizational structure, planning activities, responsibilities, practices, procedures, processes, and resources for developing, implementing, achieving, reviewing and maintaining an environmental policy.

Environmentally Preferred Power (EPP) Program
A SaskPower initiative designed to assist in meeting new load growth requirements until 2010 from environmentally friendly sources. Independent Power Producers may sell SaskPower electricity generated through eligible technologies, including wind, low-impact hydro, biomass, solar, flare gas, and heat recovery from existing sources.

Gigawatt (GW)
A unit of bulk power; one billion watts or one million kilowatts.

Gigawatt Hour (GWh)
A unit of bulk energy; 1,000,000 kilowatt hours.

Greenhouse Gases
Naturally occurring gases such as carbon dioxide, methane and nitrous oxide that trap heat in the earth's lower atmosphere.

Green Power Portfolio (GPP)
A SaskPower strategy to meet new electricity supply requirements for the period 2003 to 2010 using environmentally friendly sources, whose operations do not add to greenhouse gas emissions. The strategy includes the development of additional wind power generation, environmentally preferred power projects and conservation initiatives.

ISO 14001
A standard that defines the elements of a sound environmental management system. The ISO 14000 series is a family of environmental management standards developed by the International Organization for Standardization (ISO).

Kilowatt Hour (kWh)
A unit of bulk energy; 1,000 watt hours. The measurement is generally used for billing residential customers.

Kyoto Protocol
An international agreement to reduce greenhouse gas emissions, ratified by the federal government in 2002.

Load
The amount of electric power or energy consumed by a particular customer or group of customers.

Megawatt (MW)
A unit of bulk power; 1,000 kilowatts. The unit generally used to describe the output of a commercial generator.

Megawatt Hour (MWh)
A unit of bulk energy; 1,000 kilowatt hours.

NERC
Formed in 1968, the North American Electric Reliability Council's mission is to ensure that the bulk electric system in North America is reliable, adequate and secure.

OHSAS 18001
A standard that defines the elements of a sound occupational health and safety management system.

Peak Load Demand or Peak Energy Demand
The maximum amount of electric power or energy consumed by a particular customer or group of customers at a precise time.

Polygeneration
The gasification of coal – or other feedstock such as petroleum residues – to produce electricity and other byproducts.

Safety Management System (SMS)
The structure, resources, practices and processes used to implement health and safety policies and minimize risks.

Sulphur Dioxide (SO_2)
Sulphur dioxide belongs to the family of sulphur oxide (SOx) gases. These gases are formed when fuel containing sulphur (mainly coal and oil) is burned at power plants and during industrial processes.

Switching Station
A facility containing transformers, regulators, switches and protective equipment for changing transmission voltages between transmission lines.

Transmission
Process of moving electric power in bulk at higher voltages from the source of supply to distribution centres.

Volt (V)
The unit of measurement of electrical pressure or force which causes electric current to flow.

Watt (W)
The unit of measurement of electrical power.

system map

(at December 31, 2005)

Generation (net capacity)

Hydroelectric

1. **Athabasca Hydroelectric System** - 23 MW
   - Wellington (5 MW)
   - Waterloo (8 MW)
   - Charlot River (10 MW)
2. **Island Falls Hydroelectric Station** - 101 MW
4. **E. B. Campbell Hydroelectric Station** - 288 MW
5. **Nipawin Hydroelectric Station** - 255 MW
10. **Coteau Creek Hydroelectric Station** - 186 MW

Natural Gas

3. **Meadow Lake Power Station** - 44 MW
7. **Landis Power Station** - 79 MW
8. **Queen Elizabeth Power Station** - 386 MW
11. **Success Power Station** - 30 MW

Wind

12. **Centennial Wind Power Facility** - 150 MW (under construction)
14. **Cypress Wind Power Facility** - 11 MW

Coal

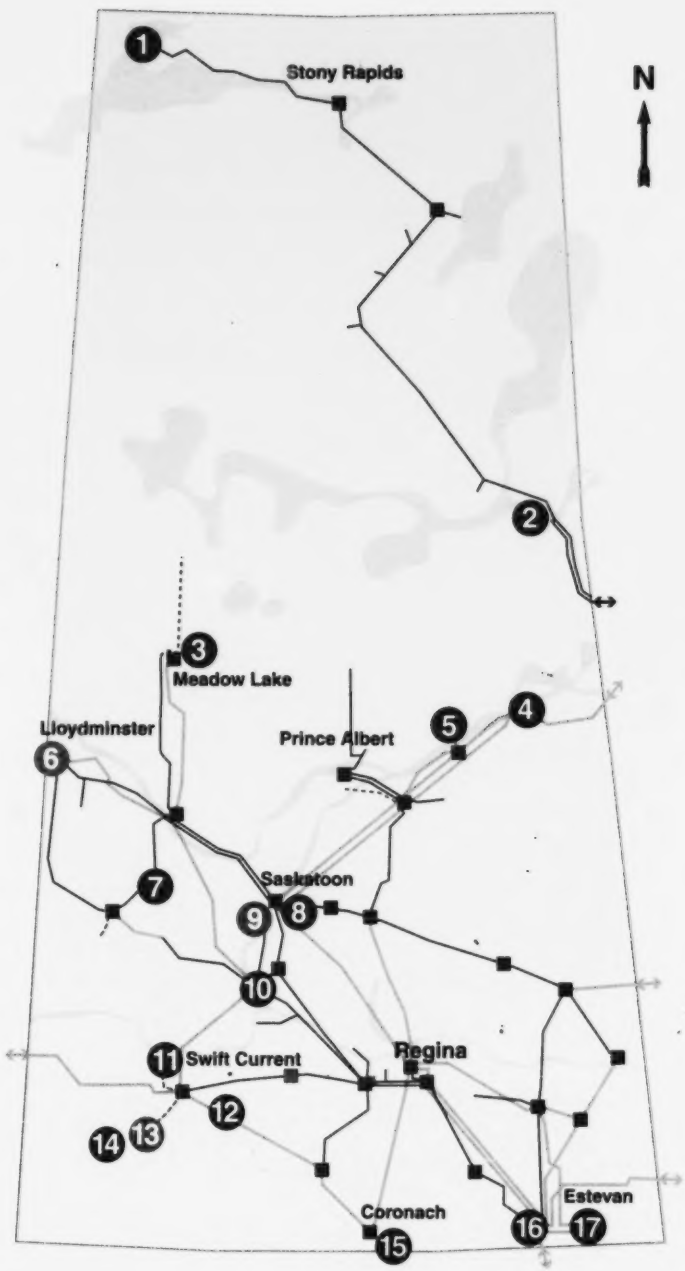
15. **Poplar River Power Station** - 562 MW
16. **Boundary Dam Power Station** - 812 MW
17. **Shand Power Station** - 279 MW

Independent Power Producer

6. **Meridian Cogeneration Station** - 210 MW
9. **Cory Cogeneration Station** - 228 MW
13. **SunBridge Wind Power Project** - 11 MW

Transmission

- 230 kV
- 138 kV
- 138 kV line operating at 72 kV
- Switching Station
- Interconnection



The SaskPower Annual Report 2005 has been printed on Save-A-Tree® paper, a 100% post-consumer recycled product that helps save trees while reducing energy consumption, air pollution, water pollution and solid waste.

To provide feedback or request additional copies of this annual report,
please visit our website or contact SaskPower Communications and Public Affairs
by phone (306-566-3170) or fax (306-566-2548).

In 2005, the SaskPower Shand Greenhouse distributed approximately 80,000 Western red lily seedlings to environmental groups, horticultural organizations and schools for planting projects in communities throughout Saskatchewan.

The Western red lily was designated Saskatchewan's floral emblem in 1941. It is now protected under *The Provincial Emblems and Honours Act*.

SaskPower

Saskatchewan Power Corporation Inc.
2025 Victoria Avenue • Regina, Saskatchewan • Canada • S4P OS1
saskpower.com

4088/Mar06